

COMPOSITE EXHIBIT I



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Changes	Previous	Current
Rating:	--	Buy
Fundamental Trend:	--	Improving
Price Target:	--	\$30.00
FY07E Rev (MM):	\$218.4	\$219.6
FY08E Rev (MM):	--	\$305.0
FY09E Rev (MM)		\$400.0
FY07E EPS:	--	\$0.20
FY08E EPS:	--	\$0.45
FY09E EPS:		\$0.67

Profile

Price:	\$21.44
52 Wk Range:	\$19.15-27.58
Avg Daily Vol:	335,332
Diluted Shares Out (MM):	54.405
Market Cap (MM):	1,053
Insiders Own:	25.6%
Book Value/Sh:	\$4.23
Est LT EPS Gr:	153%
Cash/Share:	\$3.39
Debt / Capital:	0
Year Ends:	Dec

Rev (M)	2007E	2008E	2009E
Mar	\$51.2A	\$67.0	
Jun	\$43.7A	\$73.0	
Sep	\$59.2A	\$77.0	
Dec	\$65.5	\$88.0	
FY	\$219.6	\$305.0	\$400.0

GAAP EPS	2007E	2008E	2009E
Mar	\$0.09A	\$0.08	
Jun	(\$0.01)A	\$0.10	
Sep	\$0.05A	\$0.11	
Dec	\$0.08	\$0.16	
FY	\$0.20	\$0.45	\$0.67

FY P/E	107.2x	47.6x	32.0x
FY P/S	5.2x	3.7x	2.8x

Management

CEO	Frederick Robertson, M.D.
CFO	Stephen C. Hathaway

October 31, 2007
Institutional Research

TomoTherapy, Inc.
(TTPY – \$21.44)

BUY

Price Target: \$30.00

TomoTherapy Steps Out From The Spotlight At ASTRO To Report Strong Q3 Revenues, Backlog And Earnings. Reiterate BUY Rating and \$30 Price Target.

INVESTMENT HIGHLIGHTS

- TTPY Delivered A Strong Q3 And Raised The Lower Range Of Guidance For the Year.** TTPY reported revenue of \$59.2 million, a 59% increase over comparable Q306. New sales booked during the quarter (typically a flat period coming into ASTRO) totaled \$73 million, an 83% increase over Q306. Backlog at quarter end totaled a record \$228 million, up 62% over Q306 and 10% sequentially over Q207. EPS was \$0.05, slightly ahead of our estimate of \$0.04. In addition, management raised the lower range of its revenue and EPS guidance for FY2007 to \$214-\$220 million from \$210-\$220, and \$0.17-\$0.20 from \$0.15-\$0.20, respectively.
- TTPY's Hi-Art System Was The Focus At ASTRO.** If we can convey one thing to investors from the ASTRO conference it is that the point-and-shoot method of radiation therapy is quickly becoming a thing of the past. TTPY has established Hi-Art, with its helical delivery system and integrated CT platform, as the "Gold-Standard" for IGRT and its competitors are scrambling to catch up. We believe strong commentary from Varian and Elekta, generally around providing a "comparable" treatment in a shorter amount of time, validate this position rather than threaten it.
- While New VMAT Offerings Present a Cloud For Investors, The Picture Is Clearer For Physicians and Physicists.** Much of the discussion in the investment community coming into ASTRO (and most likely coming out of ASTRO) has been around the introduction of VMAT products from Varian and to a lesser extent Elekta, to stem the rapid adoption of Hi-Art. While it is clear that the new technology has its fans within the clinical community, we noticed a strong backlash at the conference within core Varian users due mainly to technical and safety challenges as the treatment method moves from positional to arc. We also note that VMAT has been talked about in the market since the beginning of 2007 and we have seen no indication of a slowdown in orders for TTPY or a delay in anticipation of VMAT availability. If anything, we believe VMAT puts the portion of the Varian's installed base looking at upgrades at risk as the package will only be available on new systems for the foreseeable future. Other factors for investors to consider:
 - VMAT systems are currently pending 510(k) approval in the U.S.
 - Large scale commercial availability of the systems will most likely not occur for 12-18 months post-approval with the potential for significant engineering work after initial launch.
 - Indicated pricing for the VMAT option will most likely take full system pricing above the Hi-Art System.
- TTPY Sales Force Build-out Should Continue to Drive Rapid Revenue Growth.** Management commented that coming into 2007 its U.S. sales force of 11 was only seeing about 30% of available bids. With a team of 17 at ASTRO and plans to grow to 25 by the end of 2008, management's goal is to participate in 80% of bids in the U.S. (including competitive accounts who are looking at upgrades). We also note several key sales hires from major competitors and a strong flow of interest from competitive reps.



October 31, 2007

- **Management Continues To Impress.** We were able to spend time at ASTRO with not only the senior executive team of TTPY, but also with members of the sales, business development, R&D, customer service and marketing teams. We were impressed not only with the depth of talent, but with the focus and enthusiasm with which they pursue their business.
- **Reiterate BUY Rating and \$30 Price Target.** We believe TTPY shares have been negatively affected by a disconnect between investor perception of the potential impact of VMAT on TTPY revenue (backed by strong marketing bluster from its large competitors) and the reality of order flow in the field. We believe the truth will ultimately be borne out by the numbers as we expect TTPY to maintain its current revenue trajectory for the foreseeable future. We reiterate our BUY rating and a \$30 price target.

OUR VIEW OF THE QUARTER

Given the company's pre-announcement on October 1st of a small range of revenues and backlog prior to starting the road-show for its selling shareholder offering, we believe nobody will be surprised by the strong showing in the quarter. We believe that investors' focus will and should be on the continued growth of orders and backlog over the next several quarters as the impact of the competitive VMAT products is digested by the market.

International revenues accounted for approximately 47% of revenues in the quarter which we believe is indicative of future trends.

Gross margins increased during the quarter to 37.3% from 36.4% in the comparable quarter and 33.2% in the prior quarter, on a slight decline in ASPs. Gross margins were 37.9% for the nine-months ended September 30 vs. 31.8% for the comparable period in 2006. Management has indicated that it intends to gain 200 bps in gross margin this year over 2006 and is already well ahead of this plan. However, the company still significantly lags Varian's gross margins of 41-42% in its oncology systems. We believe margins will improve in relation to revenue growth and the increased contribution from service and software revenue streams through 2009.

Management has indicated goals of 40% gross margins and operating margins of 15% by the end of 2009. This will be challenged by investments in sales and service staff over the past year – however these investments provide significant leverage for revenue growth. Another factor impacting operating margins will be R&D spending associated with the company's joint venture with Lawrence Livermore Labs to develop a proton therapy system. Management indicated approximately \$1 million of expense in Q3 associated with this venture of an anticipated \$3-3.5 million total in this year. It is important to note that TTPY sees the R&D expense associated with the development of a proton system as separate from its normal operations (and outside of its 15% operating margin goal) and will break-out the expense on a quarterly basis going forward.

TTPY finished the quarter with \$185 million in cash and no debt – a result of its successful IPO earlier this year.

STOCK OPPORTUNITY

TomoTherapy is quickly gaining share in the multi-billion dollar global radiation oncology market behind its revolutionary Hi-Art System. We believe the right management team is in place to nearly double revenues by 2009 and more than triple EPS. We also see a path to significantly higher EPS if margin improvement comes in line or surpasses industry leader Varian, as expected.

We believe TTPY should be a core holding for investors in the healthcare market, and that our \$30 price target, based on an EV/sales multiple of 3.3x on our 2009 estimate, represents the first step along the path to either the formation of a dominant player in the radiation oncology market or an acquisition by one of the large medical equipment companies.

RISKS

We believe an investment in TTPY involves the following risks:

- **Slowdown in the Radiation Oncology Market** – We believe the primary risk to investors in TTPY is a potential slowdown in the global radiation oncology market. Macro influences on the purchase of capital equipment include interest rates and the availability of financing, government interaction with insurance and medical programs, and demographic trends. The market is also subject to the availability of replacement products and/or therapies.
- **Competition** – TomoTherapy competes against much larger companies who are able to dedicate a large amount of resources to both sales and marketing, and research and development. TomoTherapy is also reliant on a single product line, its Hi-Art System and related revenues, where its competitors generally have multiple product lines and revenue streams.
- **System Reliability and Service** – The Hi-Art System was plagued by reliability issues when it first launched into the market in 2004, a fact that is frequently raised by its competitors. Reliability and service are a priority focus for senior management, and while system reliability is now over 97 percentile range, there is still room to improve.
- **Reimbursement and FDA Regulation** - The FDA clearance and approval processes for a medical device are expensive, uncertain and lengthy. There can be no assurance that the company will be able to obtain necessary regulatory clearances or approvals for new products on a timely basis or at all. Delays in receipt of, or failure to receive, such clearances or approvals, the loss of previously received clearances or approvals, or the failure to comply with existing or future regulatory requirements could have a material adverse effect on the company's business, financial condition and results of operations.
- **Product Liability and Patent Infringement Risks** - When operating in the highly regulated health care sector, there is always the possibility that one could face substantial product liability risks and costs. Also, TomoTherapy could potentially be subject to claims that its technologies infringe upon the rights and patents of another party, possibly resulting in significant legal costs.
- **Retention of Key employees** - We believe that a large part of TomoTherapy's future success revolves around its senior management and R&D teams. The departure of key members of management could significantly increase investment risk.

October 31, 2007

Financial Data

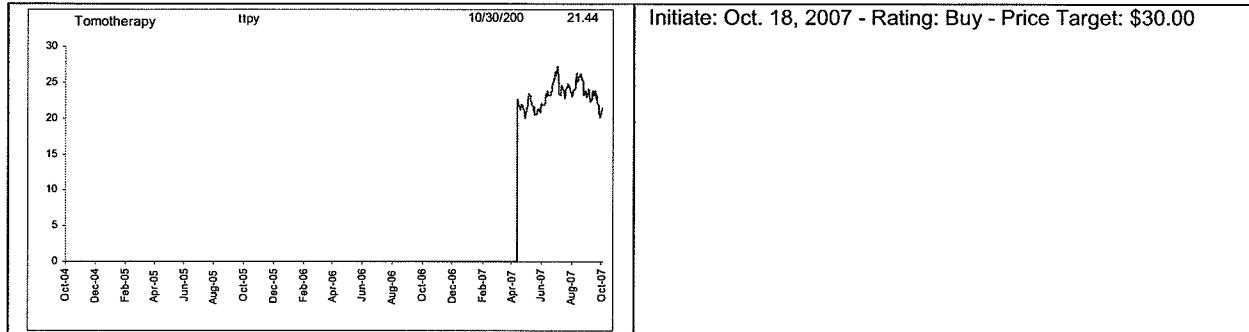
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	2006	Mar	Jun	2007	Sep	Dec	2007	Mar	Jun	2008	Sep	Dec	2008	EST	EST	EST	EST
Revenue																	
156,102	51,163	43,715	59,221	65,500	219,599	67,000	73,000	77,000	88,000	305,000	400,000	305,000	400,000				
Cost of Revenue	102,653	29,352	29,191	37,151	39,955	135,649	41,540	44,895	46,970	53,240	186,645	236,000	236,000				
Gross Profit	53,449	21,811	14,524	22,070	25,545	83,950	25,460	28,105	30,030	34,760	118,355	164,000					
Operating Expenses:																	
Research & Development	21,397	7,155	7,692	9,624	9,700	34,171	9,700	9,800	9,900	10,000	39,400	47,000	47,000				
Sales, General & Administration	23,119	8,625	9,093	11,126	11,750	40,594	12,000	12,750	13,250	14,000	52,000	68,000	68,000				
Total Operating Expenses	44,516	15,780	16,785	20,750	21,450	74,765	21,700	22,550	23,150	24,000	91,400	115,000					
Operating Profit (Loss)	8,933	6,031	(2,261)	1,320	4,095	9,185	3,760	5,555	6,380	10,760	26,955	49,000					
Other Income (Expense), Net	(1,202)	101	1,071	2,775	2,800	6,747	3,000	3,100	3,200	3,300	12,600	12,000					
Income Before Tax	7,731	6,132	(1,190)	4,095	6,895	15,932	6,760	8,655	10,080	14,060	39,555	61,000					
Income Tax Expense (Benefit)	7,184	2,246	(537)	1,512	2,551	5,772	2,501	3,202	3,730	5,202	14,635	23,180					
Net Income (Loss) to Common	547	3,886	(653)	2,583	4,344	10,160	4,259	5,453	6,350	8,858	24,920	37,820					
Net Income (Loss) per Share	\$0.09	(\$0.01)	\$0.05	\$0.08	\$0.20	\$0.08	\$0.10	\$0.11	\$0.16	\$0.45	\$0.45	\$0.67					
Diluted Shares	42,168	43,889	54,405	54,900	50,000	55,000	55,200	55,600	56,000	55,500	56,500						
Margin Analysis																	
Gross Margin	34.2%	42.6%	33.2%	37.3%	39.0%	38.2%	38.0%	38.5%	39.0%	39.5%	38.8%	41.0%					
Research & Development	13.7%	14.0%	17.6%	16.3%	14.0%	15.6%	14.5%	13.4%	12.9%	11.4%	12.9%	11.8%					
Sales, General & Administration	14.8%	16.9%	20.8%	18.8%	17.0%	18.5%	17.9%	17.5%	17.2%	15.9%	17.0%	17.0%					
Total Operating Expenses	28.5%	30.8%	38.4%	35.0%	32.7%	34.0%	32.4%	30.9%	30.1%	27.3%	30.0%	28.8%					
Operating Margin	5.7%	11.8%	-5.2%	2.2%	6.3%	4.2%	5.6%	7.6%	8.9%	12.2%	8.8%	12.3%					
Tax Rate	92.9%	36.6%	45.1%	36.9%	37.0%	36.2%	37.0%	37.0%	37.0%	37.0%	37.0%	38.0%					
Net Margin	0.4%	7.6%	-1.5%	4.4%	6.6%	4.6%	6.4%	7.5%	8.2%	10.1%	8.2%	9.5%					
Growth Analysis																	
Revenue							40.7%	31.0%	67.0%	30.0%	34.4%	38.9%					
Gross Profit							57.1%	16.7%	93.5%	36.1%	36.1%	41.0%					
Research & Development							59.7%	35.6%	27.4%	2.9%	3.1%	15.3%					
Sales, General & Administration							75.6%	39.1%	40.2%	19.1%	28.1%	30.8%					
Operating Profit							2.8%	-37.7%	NM	421.2%	193.5%	81.8%					
Net Income							175.4%	9.6%	NM	145.9%	103.9%	51.8%					
Net Income per Share								NM	140.6%	NM	99.9%	49.2%					



October 31, 2007

REQUIRED DISCLOSURES



Source: Baseline

Ratings definitions:

Buy rated stocks generally have twelve month price targets that are more than 20% above the current price. **Accumulate** rated stocks generally have twelve month price targets above the current price but lack a visible catalyst. This rating includes Early View coverage. **Neutral** rated stocks generally have no price target and we would sell the stock. Our Ratings definitions changed as of December 30, 2005. Our previous definitions can be found at www.craig-hallum.com under Ratings Information.

Fundamental trend definitions:

Improving means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

Ratings Distribution (9/30/2007)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	75%	12%
Hold	21%	4%
Sell	4%	0%
Total	100%	10%

Information about valuation methods and risks can be found in the "STOCK OPPORTUNITY" and "RISKS" sections, respectively, of this report.

CHLM makes a market in this security.

CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm's investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm's business, including investment banking.

OTHER DISCLOSURES

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REGULATION AC CERTIFICATION

I, Brooks E. West, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. No part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views contained herein.

Jefferies & Company, Inc.

Healthcare
Medical Devices & Diagnostics
United States of America

Initiating Coverage

Rating:	BUY
Price:	\$13.06
Price Target:	\$17.00
Bloomberg:	NASDAQ: TOMO

Market Data

52-Week Range:	\$27.58-\$12.78
Total Entprs. Value (MM):	\$514.7
Market Cap. (MM):	\$706.5
Insider Ownership:	11.0%
Institutional Ownership:	50.0%
Shares Out. (MM):	54.1
Float (MM):	46.5
Avg. Daily Vol.:	496,416

Financial Summary

Book Value (MM):	\$238.7
Book Value/Share:	\$4.40
Net Debt (MM):	(\$191.8)

USD	2006A	2007A	2008E	2009E
Rev. (MM)	156.1	232.8	300.4	392.9
EV/Rev.	3.3x	2.2x	1.7x	1.3x

EPS

Mar	0.07	0.09	0.02	—
Jun	0.26	(0.01)	0.04	—
Sep	0.36	0.05	0.12	—
Dec	0.92	0.09	0.20	—
FY Dec	1.62	0.21	0.38	0.70
FY P/E	8.1x	62.2x	34.4x	18.7x
Consensus	—	—	0.36	0.64

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TomoTherapy Inc. (NASDAQ: TOMO)

Initiating Coverage of TOMO With a Buy Rating and PT of \$17

Investment Summary

We would be buyers of TOMO at current levels. We believe the stock is undervalued and should trade higher due to extremely strong new order growth, accelerating revenue growth, and continued adoption of the company's proprietary Hi-Art system.

Event

We are initiating coverage of TomoTherapy with a **Buy** rating and a PT of \$17. We believe that the proprietary Hi-Art system will continue to gain market share in the fast-growing CT-based IMRT/IGRT radiation oncology market, despite the recent technological advancements made by Varian and Elekta.

Key Points

- TOMO maintains its competitive advantage.** TOMO's Hi-Art system offers innovative helical dynamic IMRT/IGRT capabilities that provide a technological advantage over traditional C-arm based competitive product offerings. Varian and Elekta recently introduced their own competitive VMAT systems at ASTRO in October '07, which has led to investor concerns that TOMO's technological advantage has now been narrowed, and a significant decline in TOMO's share price. Although VAR's RapidArc and Elekta's Infinity will have an impact on the IMRT/IGRT competitive landscape, we believe TOMO still maintains a competitive advantage and leadership position in the helical radiation therapy market and should be able to achieve top-line and new order growth substantially above industry growth rates of 10-15%. The Hi-Art system has generated extremely positive clinical outcomes data to-date and has established TOMO as a high-end brand in the radiation therapy market.

- IMRT/IGRT market is experiencing accelerated growth.** The CT-based IMRT/IGRT radiation oncology market is experiencing robust growth, with current growth rates exceeding 40%. IGRT has generated significant support from physicians due to improved tumor localization and dose distribution capabilities associated with CT-based imaging. TOMO's Hi-Art system captured ~35%-40% IGRT market share in '07, and management believes it will continue to take share going forward due to its superior dose distribution, as well as its imaging and adaptive radiation therapy capabilities.

- Continued order growth despite new competition supports positive thesis.** We believe that new order growth is the most important metric for investors to focus on as way to gauge the strength of TOMO's current business and customer demand. Further, we highlight that TOMO's business has seen no impact after the introduction of new competitive VMAT systems, as the company generated a record \$92MM in new orders in the recent Q. We model TOMO's new order growth at an impressive 27% YoY in '08 and 23% YoY in '09.

Valuation/Risks

Our \$17 PT is derived by applying a 2.8x multiple to our '09 EV/rev. estimate, a 20% discount to its peer group. Sector-specific risks include competition, regulatory changes, and reimbursement.

Executive Summary

Proprietary technology. The company's proprietary Hi-Art system has a unique helical/360 degree radiation delivery platform which provides the maximum amount of radiation during IMRT/IGRT treatments to cancerous tumors while minimizing radiation to surrounding healthy tissue, thus improving patient outcomes. Hi-Art's technological advancements over other traditional IMRT/IGRT radiation therapy systems include; 1) the ring gantry which allows for radiation delivery at many more beam angles than traditional C-arm systems (dynamic IMRT) and produces a more conformal treatment, 2) integrating daily CT scan imaging capabilities provides improved localization and definition of tumor size, shape and density as well as improved patient positioning throughout the entire course of treatment, 3) advanced treatment planning software which calculates the radiation dose pattern, and 4) adaptive radiation therapy in which dose verification is used to adjust treatment plans in subsequent treatment sessions. We believe that TOMO's advancements in IMRT/IGRT technology and its Hi-Art system's ability to deliver dynamic IMRT in the past provided a distinct competitive advantage over competitors Varian, Elekta, and Siemens (whose traditional C-arm systems delivered the radiation beam through a limited number of angles). Varian and Elekta, however, have now narrowed TOMO's clinical advantage with the development of their respective Volumetric Modulated Arc Therapy (VMAT) systems, Rapid Arc and Infinity. We believe that the Hi-Art system will continue to compete effectively in the radiation therapy market as TOMO has generated a brand name and the system is capable of adaptive radiation therapy. We expect TOMO's market share gains and growth trajectory to accelerate even in the face of increasing competition.

Large market opportunity. According to the World Health Organization (WHO), approximately 11 million new cancers are diagnosed worldwide each year. The National Cancer Institute has reported that approximately 50% of these cancer patients are treated with radiation therapy, and 90% of the patients treated with radiation therapy are treated with external beam radiation via a linear accelerator. The market for linear accelerators which can perform IMRT/IGRT is large (at ~\$2.5-\$3.0 billion), under penetrated, and continuously in an upgrade cycle (even more so now that new technologies have improved the ability to deliver radiation more accurately and precisely while sparing healthy tissue, increasing the demand for new replacement systems). TOMO currently has ~187 Hi-Art systems installed in 16 countries WW and its proprietary technology has generated significant interest in the radiation oncology community. We believe that radiation oncology centers are now investing in advanced systems which have imaging/IGRT capabilities as IGRT has generated significant support from physicians due to improved tumor localization and dose distribution. This view among physicians regarding the necessity to utilize advanced radiation therapy systems to treat cancer effectively will allow TOMO to continue to have a strong presence in the radiation therapy marketplace.

Significant backlog and strong new order growth. As of December 31st, 2007, TomoTherapy's backlog was approximately \$248.0 million (+51% YoY). The company has traditionally converted backlog into revenue in a ~9-12 month period, providing good visibility into future top-line performance and growth prospects. TOMO defines backlog as the total value of all final orders received for the Hi-Art system and related products, but does not include service contracts. Orders can be included in the backlog after a purchase order form is signed by the customer and after the required down payment is completed. TOMO does not include any contingent orders received, which include orders that have not had an official purchase order signing and/or a down payment, in its backlog calculation. TomoTherapy demonstrated impressive new order growth throughout 2007, ending the year with \$292.0 million in new orders (+38% YoY). We believe TOMO is poised to continue to generate strong new order growth in 2008 and we do not expect this growth to slow down dramatically after Varian commercializes its RapidArc system and Elekta garners FDA 510-k approval in the U.S. for its VMAT system by the end of 1H08 (Elekta has already begun taking orders for its Infinity VMAT system in Europe). We believe that new order growth is an important metric for investors to follow, and we model TOMO's new order growth at an impressive 25% YoY in 2008 and 23% YoY in 2009.

Strong, Experienced, and Highly Credible Management Team. TOMO's management team has significant experience in the oncology and imaging industries. Mr. Fred Robertson, CEO, served as President and CEO of GE Marquette Medical Systems prior to joining TOMO. Mr. Stephen Hathaway, CFO, served as Vice President and CEO of SurModics. Dr. Thomas Mackie, Chairman of the Board of Directors, co-founded TOMO and is a professor of Medical Physics and Human Oncology at the University of Wisconsin. Paul Reckwerdt also co-founded TOMO and serves on the Board of Directors. Many other members of management and the board are seasoned veterans who held various positions within the medical device industry including GE Medical, GE Marquette Medical, GE Molecular Imaging, and Siemens Medical Systems.

Valuation

We believe the valuation is compelling at current levels as TOMO trades at 1.3x our CY2009 EV/revenue estimate, a substantial discount to its peer group. We are initiating coverage of TomoTherapy with a **Buy** rating and a price target of \$17 (derived by applying a 2.8x multiple to our 2009 EV/revenue estimate).

Risks

1) If clinicians do not widely adopt IGRT and adaptive radiation therapy, the Hi-Art system will not achieve further widespread market acceptance and TomoTherapy will not be able to generate the revenue necessary to support its business. 2) TOMO experiences a variable and long sales and installation cycle, which may result in inconsistent quarterly results and fluctuations in its stock price. 3) Future legislative or regulatory changes to the healthcare system may affect TomoTherapy's business. 4) The safety and efficacy of the Hi-Art system for certain uses including Stereotactic RadioSurgery (SRS) is not yet supported by long-term clinical data and may prove to be less safe and effective than initially thought. 5) If third-party payers do not continue to provide sufficient coverage and reimbursement to healthcare providers for use of the Hi-Art system, system sales could decline and adversely affect TOMO's revenues. 6) Competition is significant as Varian (VAR, \$49.79, HOLD), Elekta (EKTAF, \$18.50, NC), and Siemens (SI, \$125.74, NC) have greater corporate, financial, operational, sales and marketing resources, along with broad product offerings, which may make it more difficult for TOMO to achieve significant market penetration and capture market share. We anticipate companies will continue to dedicate significant resources to developing new products and technologies for radiation therapy. Current and future competitors may develop technologies and products that demonstrate better safety, efficacy, and improved clinical results or have a lower cost (as compared to the Hi-Art system), which could in turn render the system obsolete or uneconomical.

Table 1: Comparable Companies Analysis

Company	Ticker	Rating	Current Price	52-Wk Range		Equity Value	Enterprise Value	Revenue				EPS			EV / Revenue			P/E		
				Low	High			CY07E	CY08E	CY09E	CY07E	CY08E	CY09E	CY07E	CY08E	CY09E	CY07E	CY08E	CY09E	
TomoTherapy Inc	TOMO	Buy	\$13.06	\$12.78	\$27.58	\$706.55	\$514.55	\$159.10	\$309.00	\$393.90	\$0.27	\$0.38	\$0.70	3.3x	1.7x	1.3x	48.4x	34.4x	18.7x	
Varian Medical Systems Inc	VAR	HOLD	51.48	37.30	-	54.71	6,579.1	6,285.3	1,847.2	2,111.0	2,301.0	2.12	2.42	2.70	3.4x	3.0x	2.7x	24.3x	21.3x	19.1x
Accuray Inc	ARAY	Buy	9.89	9.26	-	31.09	605.3	417.8	193.2	310.2	418.8	0.28	0.75	1.08	2.2x	1.3x	1.0x	35.3x	13.2x	9.2x
Hologic Inc	HOLX	Buy	58.31	47.51	-	72.88	6,320.8	8,165.2	946.6	1,837.0	2,115.0	2.22	2.56	3.23	8.6x	4.4x	3.9x	26.3x	22.8x	18.1x
Hansen Medical Inc	HNSN	NC	18.05	15.17	-	39.32	393.5	352.6	10.0	34.8	72.1	(1.81)	(1.91)	(1.16)	35.2x	10.1x	4.9x	NM	NM	NM
Mean															12.4x	4.7x	3.1x	28.6x	19.1x	16.2x

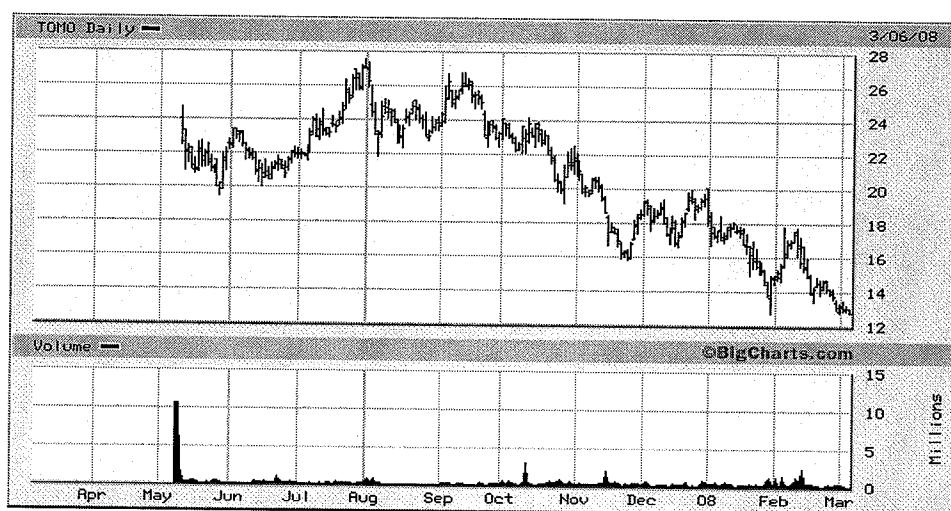
TOMO Discount to Peer Group:

58%

Note: estimates for NC companies are consensus.

Source: First Call and Jefferies' Estimates.

Table 2: Stock Price Chart



Source: BigCharts.com.

Please see important disclosure information on pages 17 - 21 of this report.

Mark Richter, mark.richter@Jefferies.com, (212) 284-2031

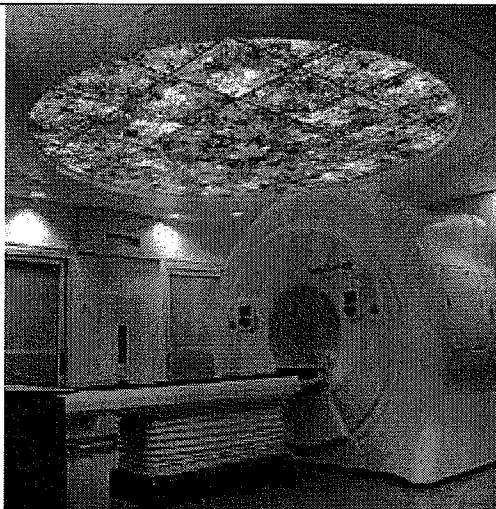
Jefferies & Company, Inc.

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Company Overview

TomoTherapy Incorporated has developed the proprietary Hi-Art Intensity Modulated/Image Guided radiation therapy (IMRT/IGRT) system which has differentiated technology that incorporates CT imaging and helical radiation delivery capabilities. TOMO's Hi-Art system represents technological advancement over traditional C-arm radiation therapy systems developed by Varian, Elekta and Siemens and allows TOMO to have a competitive advantage in the IMRT/IGRT market. The system's linear accelerator rotates around a ring gantry, which also houses the CT scanner, allowing for 360° fan-beam delivery of IMRT around the body and the integration of CT images that quantitatively identify the location, size and shape of the tumor. This design, in combination with TOMO's highly developed treatment planning software and beam shaping and modulating binary multi-leaf collimator (MLC) allows for the delivery of radiation treatments with speed, precision and accuracy which effectively maximizes radiation dose to the tumor, reduces the radiation exposure of healthy tissues, creates new options for treating complex cases, and improves patient outcomes. Another key benefit of this unique radiation therapy system includes what the company labels adaptive radiation therapy. By using completely integrated megavoltage CT multi-slice 3D imaging, the Hi-Art has the ability to monitor changes in location, size, shape and density of tumors, calculate dose distribution received by the patient, and make adjustments to the overall treatment plan prior to each dose of radiation (adaptive radiation therapy).

Exhibit 1: Hi Art System



Source: Company documents.

Product Offering/Business Model

The concept of TomoTherapy's proprietary Hi-Art system was first conceived by medical physicist Dr. Thomas Mackie and mathematician Paul Reckwerdt both of whom held positions at the University of Wisconsin-Madison. In 1992, the pair filed their first patent and then formed the TomoTherapy Research Group at the University of Wisconsin-Madison in 1994 after receiving funding from GE's Oncology Division. In 1997, GE shut down its Oncology Division and Dr. Mackie and Mr. Reckwerdt founded TomoTherapy Incorporated and continued to develop the Hi-Art system. In 1999, the company secured its first venture capital investment, then secured FDA 510k approval for the Hi-Art in 2002. TomoTherapy delivered its first commercial Hi-Art system in 2003 and patient treatments began immediately.

The Hi-Art IMRT/IGRT system was developed behind the premise that integrated imaging technology can maximize the dose of radiation delivered to the tumor and improve the precision and accuracy of intensity modulated radiation therapy. The design for the system was predicated on developing a system for delivering more effective radiation treatments and reducing patient side effects through very precise treatment plans which could be augmented by image guidance capabilities. By incorporating the linear accelerator (LINAC) in the ring gantry of the CT scanner, Hi-Art designers empowered the system to perform dynamic radiation therapy by allowing the LINAC to deliver radiation through thousands of beam angles and thus generate more conformal beam distribution patterns.

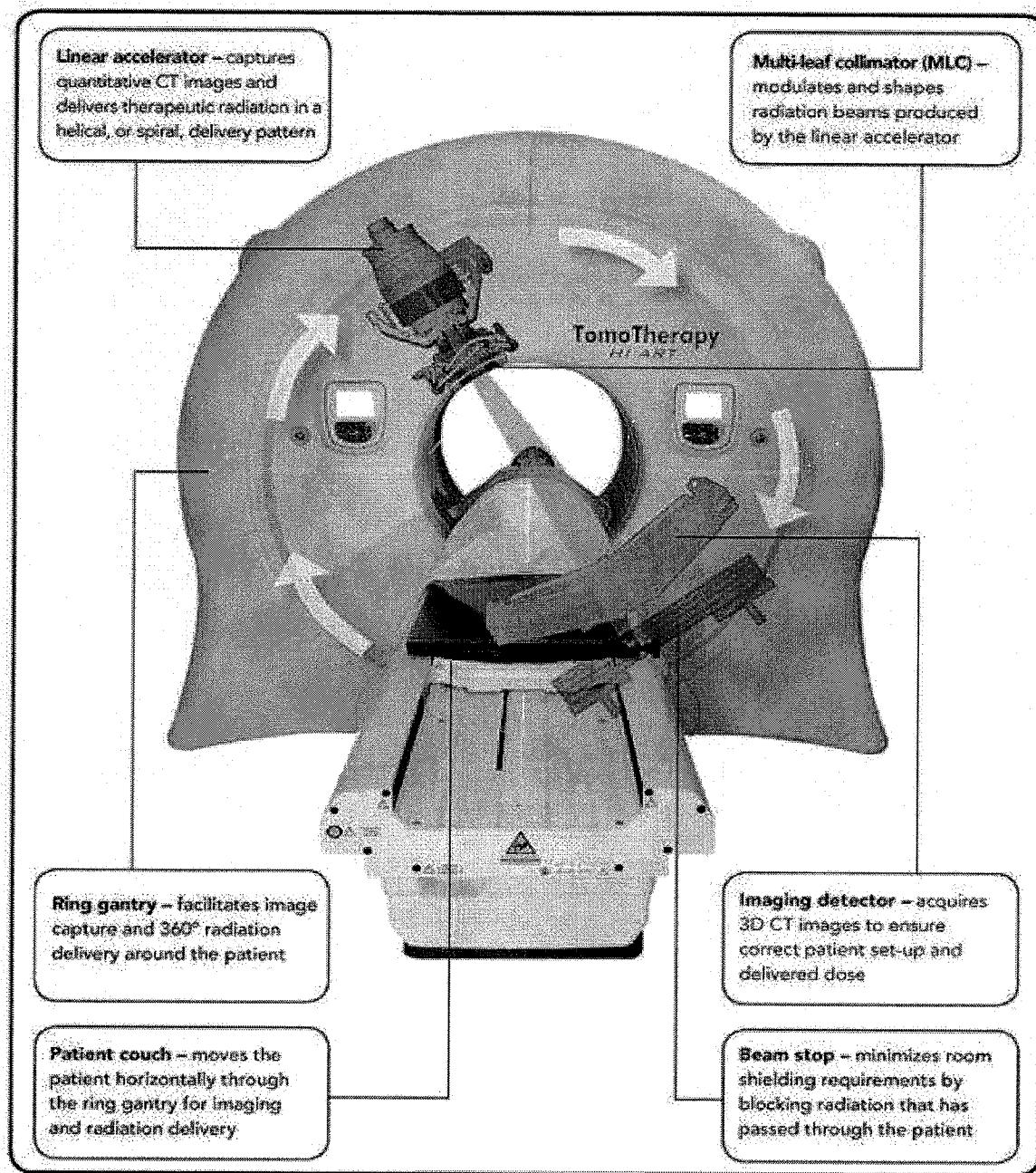
The combination of integrated CT scan (CTrue) imaging, advanced planning software, and helical delivery pattern allow the Hi-Art to deliver advanced radiation treatments and modify the treatment plans with each treatment. When a

patient receives radiation therapy with TomoTherapy's technology, the first step the Hi-Art system undertakes is the optimization of the treatment plan, which is completed by calculating the radiation dose distribution pattern that maximizes the radiation dose to the tumor and minimizes the radiation dose to surrounding healthy tissues and critical structures. The radiation oncologist uses 3D images from a combination of scanning technologies (such as CT and MRI) and special software to establish the precise contours for each tumor and any organs or structures at risk. The doctor then decides how much radiation the tumor should receive, as well as acceptable levels for the surrounding structures. The Hi-Art treatment system calculates the desired position and intensity of the radiation beam to be delivered, to match the physician's prescribed dose as closely as possible. A quantitative CT scan image of the treatment area is taken to discover the tumor's exact location, size, shape and density. This information is then used to position the patient on the treatment couch to help ensure that the radiation beam is directed exactly where it was planned. The Hi-Art treatment system then delivers intensity-modulated radiation therapy (IMRT) in a helical delivery pattern. The LINAC produces photon radiation which travels in multiple circles around the patient and moves in unison with the 64 leaf multi-leaf collimator (MLC). The LINAC delivers the optimized dose of radiation by passing the beams through the 64 leaf multileaf collimator (MLC), which open and close in as quick a time as 20 milliseconds to modulate the shape of the beams. The patient positioning couch guides the patient slowly through the center of the ring gantry. Each time the LINAC completes a loop around the patient it directs a unique, optimized set of radiation beamlets at the tumor. The data acquired for the accurate positioning of the patient can also be used to calculate the dose that the patient received. This data is crucial because when it is combined with subsequent CT scan images the radiation oncologist and radiation physicist can adjust the future treatment plans to accommodate shrinking tumors, tumors which have changed location, and any previous errors in dose delivery to the tumor or surrounding healthy tissue. This adaptive radiation therapy capability is unique to the Hi-Art system and provides a competitive advantage over other IMRT/IGRT systems as it has the potential to evolve into standard of care for radiation therapy treatments.

In 2007, TomoTherapy improved its offering with product upgrades including five software upgrades. The launch of the latest treatment planning software version 3.1, which will help improve delivery efficiencies, has been delayed due to debugging issues but we do not expect it in the next few months. A new high performance couch which when combined with the treatment planning software will increase patient throughput on a Hi-Art system by ~30% without reducing efficacy. This reduction in treatment time is crucial as Varian and Elekta are claiming that their respective VMAT offerings dramatically reduce beam on time from historical treatment times associated with TOMO's Hi-Art system.

The Hi-Art system is touted as having Stereotactic RadioSurgical capabilities by the company's management team. TOMO's management has stated that 2/3 of their customers used the Hi-Art system in 2007 for SRS procedures, but we believe that the Hi-Art is used infrequently by Hi-Art users for SRS procedures and that most of these SRS cases are either intracranial non-complex tumors or extracranial non-complex tumors. TOMO expects to make improvements in its patient positioning, tumor tracking, and software planning capabilities to improve the system's SRS capabilities. The company has signed a strategic alliance with Integra LifeSciences subsidiary, Integra Radionics, Inc., to develop and supply the InterFix radiosurgery kit to Hi-Art system users. The InterFix kit will allow for cranial immobilization for intracranial SRS procedures by the Hi-Art system, improving its SRS capabilities (albeit by an external fixation device). These improvements will take significant time to complete, but we will continue to monitor any technological advances appropriately, and view increased share in the SRS market opportunity as additive.

Exhibit 2: Hi Art System



Source: Company documents.

Regulatory Approval

TomoTherapy received U.S. Food and Drug Administration 510(k) clearance in January 2002 to market the Hi-Art system for the treatment of tumors or other targeted tissues anywhere in the body where radiation therapy is indicated. TOMO installed the first Hi-Art system and treated the first patient in 2003. Since receiving the initial clearance to market the Hi-Art system in the United States, the company has received regulatory clearances in Canada (2003), Japan (2004) and the European Union (2005). As the company continues to upgrade the Hi-Art system to incorporate new software and hardware enhancements, TOMO may require further approvals or clearance from the FDA or its foreign counterparts. Most future upgrades to the Hi-Art system should only require 510(k) clearance, but some future upgrades may be subject to the substantially more time-consuming and uncertain pre-market approval process (PMA).

Exhibit 3: Treatment Advantages**TomoTherapy Hi-Art system advantages**

More versatile treatment options

The Hi-Art system's high-speed ring gantry and beam-shaping capability allow the intensity of the radiation beam to be modified and treatment to be delivered continuously in a helical pattern 360 degrees around the patient's body. It also enables treatment to be delivered from many angles without extending the time it takes to complete the procedure.

Daily, quantitative imaging for better identification of tumors, dose verification and treatment planning

The Hi-Art system is the only commercially available radiation therapy system offering integrated quantitative CT imaging capabilities, marketed as CTrue imaging technology. This technology depicts the density of tumors and healthy tissue more accurately than traditional radiation therapy systems. Daily, quantitative images are necessary for the accurate delivery of IMRT and are essential to optimizing a patient's treatment by enabling clinicians to adapt the treatment plan in response to anatomical changes and the cumulative amount of radiation received by specific areas within the patient over time.

Fully integrated treatment system for more precise radiation delivery

The integration of our CTrue imaging technology, treatment planning and helical delivery of radiation beams shaped by the MLC enables highly precise radiation delivery. This ensures that the radiation conforms to the patient's tumor and avoids sensitive structures. These features significantly benefit patients by providing a precisely targeted dose distribution which maximizes the radiation delivered to cancerous tissues and minimizes damage to healthy tissues.

Efficient clinical workflow for IGRT and adaptive radiation therapy.

The Hi-Art system allows clinicians to easily and rapidly scan, plan and treat cancer patients. This capability enables healthcare providers to increase patient throughput for sophisticated IGRT and adaptive radiation therapy procedures using the Hi-Art system.

Low barriers to installation and implementation

The Hi-Art system's compact design, with built-in shielding, allows customers to retrofit the Hi-Art system into existing treatment rooms and avoid or reduce the significant construction costs that can be associated with the installation of other systems. Each Hi-Art system is preassembled, tested and commissioned at the manufacturing facility and is shipped almost fully assembled. This assembly process allows radiation "beam-on" within four days and treatments to begin within 45 days of delivery in most cases.

Platform for further technological advancements in adaptive radiation therapy.

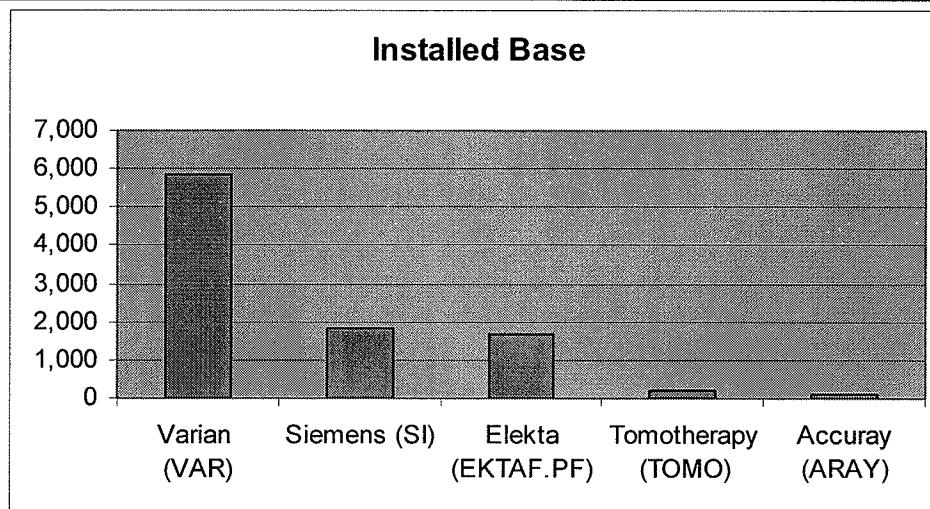
The Hi-Art system is the only commercially available linear accelerator that enables adaptive radiation therapy because of its unique ability to provide daily, quantitative images, high speed delivery of radiation from 360 degrees around the body and the data necessary for clinicians to verify the actual radiation dose received by the patient. The combination of these design features and the integrated treatment planning and optimization software will allow TomoTherapy to continue to enhance the Hi-Art system's adaptive capabilities to a point where clinicians can routinely and easily adjust a patient's treatment as needed.

Source: Company documents.

Market

The World Health Organization (WHO) estimates that 7.6 million people died of cancer in 2005 (13% of all deaths). According to WHO, approximately 10.9 million people are newly diagnosed with cancer annually, and 24.6 million people live with cancer at any given time. The incidence and prevalence of cancer are only going to increase as the population ages, with the WW incidence of cancer estimated to grow ~50% to 15 million cases diagnosed annually by 2020. 1.4 million new cancers were diagnosed in the U.S. during 2006, while 92% of these cancers are estimated to be solid tumors that could potentially be treated with radiation therapy systems (including the Hi-Art). The market for linear accelerators is large and still under penetrated. As of 2004 there were approximately 2,010 hospitals and stand-alone treatment facilities in the U.S. that provided radiation therapy and close to 4,000 worldwide. At the end of 2007, we estimate that Varian had an installed base of ~5,800 linear accelerators, Siemens had ~1,850 systems installed, Elekta's installed base was at ~1,650, and Accuray had 126 systems installed. We estimate that TOMO has placed ~187 Hi-Art systems to date, and the company announced that the manufacturing of their 200th Hi-Art system was completed at the end of 4Q07.

Exhibit 4: Installed Base



Source: Jefferies & Company, Inc. equity research

Based on our estimates, the ~\$2.8 billion radiation therapy equipment market is growing at approximately 10% per year and much of this growth is being driven by the adoption of IGRT technology in the form of replacement systems and upgrades. We estimate that approximately 550-600 radiation therapy systems reach their 10 year anniversary annually and require replacement, and many radiation oncology centers choose to either upgrade or replace outdated systems prior to the 10 year anniversary mark. TomoTherapy's management team commented on the company's 4Q07 earnings conference call that they have captured 10%-12% of the radiation oncology market, and have achieved ~35%-40% market share in the CT based IGRT radiation oncology market. TOMO's management also stated that they believe that the CT based IGRT market has been growing at a rate greater than 40%. Although the U.S. market represents a relatively mature market, the current market opportunity lies in the replacement cycle. In the U.S., approximately 80% of new orders are for upgrades and 20% are for replacement systems. New technologies, including TOMO's Hi-Art system, which improve treatment capabilities and potentially enhance patient outcomes, should lead to shorter replacement cycles and drive close to 10% domestic growth in the radiation therapy market. Internationally, Western Europe represents a mixture of countries with mature (France, Germany) and growing radiation therapy markets (Italy, Spain, UK) which could support 10%-plus growth, while Asia (Japan, China, India) represents a region which is significantly under penetrated and could potentially support growth in the mid-to-high teens. In international markets, approximately 20% of new orders are for upgrades to existing systems, while 80% of new orders are for new or replacement systems. TomoTherapy will continue to strategically expand its international presence in order to take advantage of opportunities in these growing markets.

Our due diligence indicates that radiation oncologists WW are becoming increasingly convinced that image guidance combined with IMRT allows for even more accurate and precise treatments than IMRT alone, which theoretically should produce better patient outcomes (although there has not been significant long term clinical data providing evidence of improved efficacy to date). TOMO has had a significant competitive advantage as its integrated CT

scanning and helical radiation delivery provided the technologically superior IGRT capabilities physicians prefer along with dynamic IMRT capabilities. This competitive advantage may be narrowed in 2008 as both Varian and Elekta have now commercialized their VMAT systems which have integrated IGRT systems and incorporated dynamic Arc IMRT capabilities. We believe that increasing demand for advanced radiation therapy systems (especially in international markets) will result in ~80%-plus of the new orders for radiation therapy equipment including systems with IGRT capabilities, which should bolster TOMO's potential market opportunity in the face of rising competition. In 2006, we estimate that TOMO captured ~7% market share of new orders and in 2007 the company captured ~10%-12% market share.

Revenue Model

TomoTherapy's revenue sources include the sale of the Hi Art System, post-warranty service contracts, billable service parts and other hardware and software options purchased by customers. The post-warranty service contracts may be purchased with one-year or multiple-year terms. Customers currently pay the list price of ~\$2.6 million dollars for the Hi-Art system in the U.S. and ~\$3.0 million internationally, but TOMO negotiates the actual purchase price with each customer and, thus the historical purchase price has varied significantly. Installation, a one-year warranty, and training are all incorporated in the list price. Currently, TOMO's most popular service plan is the Total Tomo Lifecycle Care Service Package which is comprehensive package providing complete system coverage. Under Total TLC, the company provides its customers with full spare parts coverage, as well as installation service by a TomoTherapy field service engineer and fully planned maintenance. This service plan is sold for ~\$190K per year in one and multi-year packages. Alternate plans include the Partnership TLC Service Package and Support TLC Service Package. Service revenue currently comprises a small portion of the total revenue (~9.5%), but should grow as the installed base increases.

TomoTherapy recognizes revenue from system product and service related sales when specific criteria are met. These criteria include; 1) the existence of persuasive evidence of an arrangement or a signed purchase order from the customer, 2) the title and risk of loss have been transferred to the customer or the customer signs the acceptance test procedures document (ATP) and TomoTherapy receives the signed ATP, 3) the sales price is fixed or determinable meaning that the contract terms in the signed purchased order are fixed and the customer has no rights of cancellation, return or refund, and 4) collection of the payment is reasonably assured which includes most all of their sales as the hospitals and cancer treatment centers purchasing the Hi-Art system all have significant resources. TOMO generally receives 10%-30% of the total purchase price as a down payment, 60%-80% is typically received upon shipment of the system, and the remaining 10% is due when the customer accepts the system. The payments received for products or services prior to the shipment of the system or prior to the completion of contracted services are recorded as customer deposits. Once a system has been shipped, the related deposits are transferred to deferred revenue until the criteria for revenue recognition are completed, and the deferred revenue becomes revenue.

For sales to distributors, TOMO recognizes revenue based on the distributor's certification status. The company certifies some of its distributors to provide installation, testing, training and post-installation warranty services. Once that training is completed, TOMO recognizes revenue upon shipment to that certified distributor as all obligations have been satisfied. These distributors do not have any contractual right to return a system or request a refund. Currently, TomoTherapy has only certified distributors in Japan and Taiwan. TOMO also recognizes service contract revenue proportionately over the term of the contract.

Reimbursement

CMS recently increased Medicare and Medicaid reimbursement rates for radiation therapy procedures (excluding IGRT), such as daily treatments, planning, positioning of patients and quality assurance, in U.S. hospitals in its CY2008 Hospital Outpatient reimbursement schedule. The reimbursement code 77014 was a new code introduced by CMS in 2007 to reimburse IGRT using CT images for the purpose of properly positioning patients to ensure accurate delivery of radiation. In November 2007, CMS removed 77014 as a stand-alone code in 2008 for outpatient treatment by hospitals, and bundled it into other procedures. The decision to remove IGRT reimbursement codes and bundle IGRT reimbursement into the IMRT code will reduce overall payment for image guided radiation therapy. Hospitals that provide IMRT treatments without IGRT will receive a ~4% increase in reimbursement in 2008, while those hospitals that use image guidance during their radiation therapy treatments will experience a reduction in overall reimbursement of ~15% (with the elimination of IGRT specific reimbursement). In 2008, IMRT treatments with or without IGRT (assuming an average of 30 fractions per treatment) will generate ~\$12,860. In 2007, when code 77014 was in place,

IMRT/IGRT treatment courses (again assuming 30 fractions per treatment) would garner a hospital ~\$15,100, while IMRT treatments without IGRT would generate ~\$12,300. Although this reduction in reimbursement is significant, we believe that it will not drastically alter the purchasing decision process as the clinical community now recognizes the clinical benefits of systems with IGRT capabilities.

Internationally, reimbursement and healthcare payment systems vary from country to country and include single-payor, government managed systems as well as systems in which private payors and government-managed systems exist side-by-side. Most countries have reimbursement in place for IMRT and IGRT reimbursement coverage approvals should continue to be obtained, improving TomoTherapy's ability to generate sales OUS. In Europe, healthcare providers have been able to negotiate adequate payment rates through coverage contracts with local payers. Although CMS is always trying to limit costs, the accumulation of more published data on clinical efficacy and safety of image guided radiation therapy will make it difficult for CMS and international regulators not to provide reasonable reimbursement rates. We believe that specific reimbursement codes for IGRT could return as CMS and other third-party payers realize the clinical benefits associated with image guidance and reduced complications/side effects when compared with traditional IMRT.

Sales Force, Marketing, and Distribution

The company markets the Hi-Art system through a direct sales force in the U.S. and a combination of direct sales personnel and distributors internationally. During 2003 and 2004, TomoTherapy focused its sales and marketing initiatives on North America. Currently, the company markets the Hi-Art system through an experienced team of direct sales personnel in the U.S. and distributors internationally. As of January 31st, TOMO had increased its direct sales force in the United States from 15 in the beginning of 2007 to 24. The company's goal was to double the sales force to 30 by the end of 2008 and have 25 direct sales people in the U.S. by 1H08. This expansion in the sales force should help drive new order growth as the company will have better sales coverage to focus on its target customer base, (which include for-profit institutions, large national accounts, and radiation oncology centers who currently have the aging installed base of competitors' systems) and to focus on expanding into more marquee accounts at the top 50 cancer centers and the top 100 academic institutions in the country.

In 2005, TOMO began to expand its sales and marketing efforts to international markets, specifically Western Europe and Asia. In April 2006, the company's European office in Brussels, Belgium was opened, bringing TOMO sales, service and call center operations in Europe, which have two direct sales representatives and six sales agents. European marketing and sales activities are supported from both the U.S. headquarters in Madison, Wisconsin and the Belgian European headquarters. TomoTherapy's Asian distributor network also expanded in 2006 with the addition of six distributors in different countries including India and China. The company continues to examine opportunities to develop direct sales forces in specific strategic geographic locations in both Asia and Europe. Of note, TOMO continued its globalization strategy in 4Q07 by adding six new distributors in six new markets including Poland, Russia, Turkey, Greece, Israel, and the United Arab Emirates, and the company will continue its international expansion in 2008. We would also highlight that the company frequently agrees to assist its customers in the marketing of the Hi Art systems in an attempt to raise awareness in customers' respective communities about the technological differences of the Hi Art system over other competitive radiation therapy systems and attract patients. We believe that this co-marketing arrangement is valued by potential customers.

Customer Service and Support

Although historically there have been concerns over TOMO's customer service and support programs capabilities, we believe that the company has taken steps to expand this division and more adequately support its installed base. This improvement in customer service has allowed the company to decrease the downtime of installed Hi-Art systems as average system "up time" increased from 96.1% in 2006 to 97.1% in 2007. Up time is a big consideration for customers when making a purchasing decision and has allowed TomoTherapy to increase the market penetration of the Hi Art system. The company now has an experienced field service support team of 120-plus engineers and 20-plus spare parts depots around the world to facilitate rapid responses to requests for parts or service (allowing the company to deliver a part to any customer site within eight hours), as well as two call centers which operate 24 hours a day, seven days a week, and are staffed with trained technical personnel, including physicists.

TOMO's service team first has contact with a customer during the initial phases of site planning and continues to be available throughout the lifecycle of the system. Each installation is assigned a dedicated project manager and installation team with local design experts. Installations typically require only approximately 45 days from the time the

system is delivered on site until the system is ready for treatment of the first patient. TomoTherapy offers comprehensive training for physicists, dosimetrists and therapists at both the customer's site and at the company headquarters in Madison, Wisconsin.

In addition to the standard one-year warranty, TOMO also offers a range of Tomo Lifecycle Care, or TLC, post-warranty equipment service agreements that permit customers to contract for the level of equipment maintenance they require. The most popular TLC service agreement is the Total TLC Service Package, or Total TLC, which is comprehensive care package providing complete system coverage. Total TLC provides customers with full spare parts coverage, installation, service by a TomoTherapy field service engineer and full planned maintenance. 80% of TOMO's customers have agreed to the Total TLC plan. The company also offers the Partnership TLC Service Package, or Partnership TLC, which provides technical training, remote support, full spare parts coverage and semi-annual planned maintenance. The Support TLC Service Package, or Support TLC, provides technical training, remote support and a 10% discount on all spare parts. For both the Partnership TLC Service Package and the Support TLC Service Package, TOMO provides on-site repair and parts installation services on a billable basis.

Manufacturing

The Hi-Art system is manufactured in a recently constructed facility in Madison, WI. The company recently completed a significant expansion which increased the manufacturing capacity to ~250 systems a year. Management believes that this manufacturing facility will provide the capacity needed for anticipated growth in system placements and customer demand in the upcoming five years. TOMO assembles tests and fully commissions every Hi-Art system manufactured prior to shipment. The product is then partially disassembled for shipment, and then reassembled in the bunker at the radiation oncology facility. The company is able to install the Hi-Art at the customer site and have the radiation beam-on within four days and the system is typically ready to begin delivering radiation therapy, and TOMO is able to recognize revenue on the installed unit, within three to four weeks.

Competition

The development of radiation oncology has progressed over the past 40-50 years initially from 2-D radiotherapy to intensity modulated radiotherapy (IMRT) and image guided radiotherapy (IGRT). Increased adoption rates of IMRT and IGRT over the last 5-10 years has allowed for the growth of the radiation therapy market, as more and more cancer treatment algorithms are implementing radiation therapy either alone or in combination with chemotherapy and/or surgery. TomoTherapy has taken recent advances in radiation oncology and created the proprietary Hi-Art system which can perform dynamic adaptive IMRT/IGRT treatments by modifying treatment plans prior to each fraction of radiation based on quantitative CT imaging results. The design of the company's proprietary system design allows for the delivery of radiation beams from 360 degrees around the patient, which provided a distinct competitive advantage over traditional C-arm systems which were limited to delivering radiation beams from a limited number of angles. This competitive advantage has been reduced with the recently introduced Volumetric Arc Therapy (VMAT) from Varian and Elekta. We believe that TOMO has created a brand product and will continue to be able to compete effectively in the radiation therapy market place despite the introduction of more competitive VMAT systems, which we believe could alter TOMO's new order growth trajectory without significantly slowing new orders, revenue and earnings growth in 2008 and beyond.

The market for standard linac (linear accelerators) radiotherapy machines is made up of multiple companies including Varian, Elekta, Siemens AG, TomoTherapy, BrainLab and Mitsubishi Heavy Industries (MHVYF, \$4.31, NC). Currently these IMRT and IGRT systems are employed in standard of care radiotherapy, which is typically complementary to surgery and/or chemotherapy in an oncologic treatment algorithm.

Varian is the largest player in the radiation therapy market with ~5,800-5,900 linear accelerators installed WW and is the market leader of new linac orders in the U.S. (70% share) and WW (~50%-plus share). The company has developed the Trilogy system linear accelerator which is optimized to perform all forms of external beam radiation therapy including 3D conformal radiotherapy, IMRT, and IGRT with an On Board Imager upgrade. The Trilogy system's ASP is ~\$3.0 million. The system includes the Clinac 23EX (its high end linac), the On Board Imaging system, Millennium multileaf collimators, the RPM gating motion management system, and the PortalVision aS100 system. At ASTRO in October, 2007, Varian announced the launch of RapidArc Volumetric Intensity Modulated Arc Therapy (VMAT), a technology which improves the company's IMRT/IGRT radiation therapy platform. In January, 2007, Varian announced that it had received FDA 501(k) clearance for its RapidArc radiotherapy technology, which includes

treatment hardware and treatment planning software. VAR has been taking orders from customers for the new technology and plans to begin shipments by the spring of 2008. RapidArc reduces treatment times and uses extremely efficient doses of radiation through a new powerful software algorithm that simultaneously controls the speed of the gantry rotation, modulates the shape of the radiation beam by controlling the movement of multileaf collimator (MLC) leaves, and adjusts the dose delivery rate. Varian researchers and clinicians involved in the development program, claim that the RapidArc technology represents a major advance in IMRT/IGRT therapy (as it improves dose conformity while shortening treatment times). RapidArc allows the IMRT treatment system to complete volumetric modulated arc therapy in one revolution of the C-Arm, which can potentially reduce beam on times to less than two minutes. RapidArc has the potential to substantially increase ROI for customers by effectively doubling daily patient volumes. Although there are concerns that quicker treatment times could reduce safety profiles, Varian claims that their dose distribution studies demonstrate the ability to accurately match the shape of the tumor, increasing the capability to spare healthy tissues from radiation damage. We believe that approval for the RapidArc technology may enable Varian to more effectively compete with TomoTherapy's Hi-Art system's helical IMRT/IGRT radiation delivery system. We would note that RapidArc has yet to be proven superior to other competing systems from TomoTherapy and Elekta, but as the established market leader in radiation therapy (and holding the highest number of existing accounts) Varian may have an advantage over other companies in placing new systems and especially in placing replacement IMRT/IGRT systems. Varian's new offering will have an impact on the pace of TOMO's market share gains in the IMRT/IGRT space, but with the IGRT market growing 40% we believe that TOMO's growth trajectory will continue to significantly surpass industry growth rates.

Another product highlighted at ASTRO by Varian was the new Novalis Tx system, which is a product developed in collaboration between Varian and BrainLab. This product takes VAR's Trilogy system and integrates the HD120 multileaf collimator along with BrainLAB's ExacTrac imager, robotic couch and treatment planning software. This system will be marketed as a dedicated SRS system. Although Varian is improving on the Trilogy's pre-existing SRS capabilities, we believe that the system will be limited in extracranial cases as the Novalis Tx uses gating to account for tumor movement, which leads to a reduction in the level of accuracy and precision when treating intra-thoracic and intra-abdominal tumors, essential metrics in all SRS procedures (a negative in our opinion). On the company's FY1Q08 earnings call, VAR noted that it had taken 14 orders for the Novalis Tx through late January.

Elekta markets its Synergy-S and AXESSE platforms that employ IMRT/IGRT radiation therapy and stereotactic radiosurgery technologies. The ASPs for these systems are ~\$3.0-\$3.5 million. At the ASTRO conference in October, 2007, Elekta also premiered the Infinity, which is a new digital linear accelerator optimized for delivering Volumetric Intensity Modulated Arc Therapy (VMAT), a very fast IMRT treatment delivered in single or multiple arcs. Elekta has recently launched the Infinity in Europe at the Royal Marsden Hospital in Sutton, UK and the General Hospital Vienna has adopted the company's Infinity Volumetric Intensity Modulated Arc Therapy (VMAT) system. The company expects FDA approval in the U.S. by the end of 1H08. We believe that the introduction of Elekta's VMAT technology into both U.S. and OUS markets has provided the market with another competitive system and will have an impact on TOMO's ability to dominate the space. Elekta has also established its Gamma Knife system as the market leader in radiosurgery performed in the brain, partly due to first mover advantage (with an installed base of ~265 units). The Gamma Knife uses frame-based radiosurgery, which necessitates a surgical procedure where a rigid metal frame is literally bolted to the patient's skull for head immobilization and target localization. Frame-based systems have numerous limitations including restricting treatment areas (brain, head, neck, and cervical spine), limiting the possible angles by which radiation can be delivered, and causing considerable discomfort for the patient. ASP for the Gamma Knife is estimated to be \$4.5 million. The company has released a new version of the Gamma Knife called the Leksell Gamma Knife Perfection. This new system reportedly expands the Gamma Knife's clinical applications and thus treatable patient volume by 40%, but is still limited to the brain, head, neck, and cervical spine. The Perfection has a new collimator design for improved beam sculpting and accuracy, as well as a new treatment planning software system.

Siemens has an installed base of linear accelerators of ~1,850 systems WW. Siemens commercialized the PRIMUS linear accelerator which can be incorporated into the SIMTEC system which performs IMRT treatments, or combined with the SOMATOM CT scanner in the PRIMATOM system which is an IGRT capable system. Siemens historical difficulty in developing a competitive IGRT system has driven its fall from the number two player in the radiation therapy market to number four.

Brainlab is a privately held company in Germany that has developed a software-driven frameless radiosurgical system called the Novalis. The system has photon beam technology and an integrated beam shaper that allows the machine to mirror the contour of the tumor and deliver homogenous dose distribution in what the company refers to as "Shaped

Beam Surgery" (similar to multileafed collimators). The system rotates around the patient in a Dynamic Conformal Arc, delivering radiation beams at different angles, but always in the shape of the tumor. The ExacTrac Xray 6D is employed by the system to map tumors and continuously track them during treatment (adjusting for patient movements). The system also has a respiratory gating system and a robotic table for automatic patient positioning. The Novalis also has IMRT and IGRT capabilities. The company has placed over 80 systems worldwide to date. At the ASTRO conference in October, 2007, the company announced the commercialization of the Novalis Tx in collaboration with Varian (see above).

Accuray Inc. has developed the CyberKnife system, which is the first and only available intelligent robotic radiosurgery system. This system is an alternative cancer treatment to previous traditional cancer treatment modalities and is unique to radiosurgery due to its capability to treat solid tumors throughout the body. The CyberKnife system combines continuous image-guidance technology with a compact linear accelerator that is attached on a computer-controlled arm. This system is capable of autonomously tracking, detecting, and correcting for tumor and patient movement in real-time, and precisely delivering high doses of radiation to the tumor, typically with sub-millimeter accuracy. The procedure requires no anesthesia and is performed on an outpatient basis. Key benefits of this unique radiosurgery system include the treatment of inoperable or surgically complex tumors, real-time tracking of tumor movement, and the elimination of surgical risks including infection, anesthesia and post-operative complications. As of December 31st, 2007, Accuray had installed 126 systems at customer sites and had a backlog of \$680 million. Although TomoTherapy's Hi-Art system can perform SRS treatments on non-complex tumors, in our opinion TOMO still needs to develop tumor tracking systems, and patient movement detectors to be able to effectively perform extracranial radiosurgery on complex tumors in the chest or abdomen. The Hi-Art system is capable of performing Stereotactic RadioSurgery (SRS) on non-complex tumors in the brain and cervical spine, but does not have the capability to track tumor movement which limits its potential for SRS treatments for tumors in the chest or abdomen.

Mitsubishi Heavy Industries, Ltd. (MHVYF, \$4.31, NC), a Japan based manufacturing company, has developed a radiation therapy machine called the TM2000 linear accelerator system. The system is capable of precise identification of tumor location and exact targeting of X-ray irradiation through a 3-D X-ray imaging system (no CT scanning capabilities at present). The TM2000 delivers radiation in a helical pattern, similar to TOMO, with a compact linear accelerator, which with the adoption of an O-ring mechanical adapter allows for high accuracy in the delivery of the radiation beam. The system received Japanese approval in January 2008 and FDA approval in 2007. MHI is set to launch its marketing of the system in the near-term in Japan. MHI plans to cooperate with Brainlab to promote the machine overseas, including in the U.S. We do not believe that Mitsubishi poses a significant near term threat outside of Japan, but we will continue to monitor the company's progress and any competitive technological advances.

Outlook

The company recently reported impressive 4Q07 results with revenue of \$78.7 million (+32% YoY) and GAAP EPS of \$0.09 compared to FC consensus estimates of \$65.4 million and \$0.06. We estimate that TOMO placed ~26 Hi-Art systems and the company announced that it generated a record \$92 million in new orders in 4Q07. Backlog increased from \$228.0 million in 3Q07 to \$248 million in 4Q07. On the 4Q07 earnings conference call, management issued 2008 revenue and GAAP EPS guidance of \$290-\$310 million and \$0.34-\$0.39, respectively. Based on the timing of historical orders, TOMO's management expects 30%-40% of sales to come in 1H08, with the remaining 60%-70% of revenue being generated in 2H08.

We model TOMO's FY08 revenue and F/T cash EPS of \$300.4 million (+29% YoY) and \$0.38. For FY09 we model revenue and F/T cash EPS of \$392.9 (+30.8% YoY) million and \$0.70, respectively. The company currently has ~\$191.8 million in cash and no debt.

Investment Conclusion

We are initiating coverage of TomoTherapy with a Buy rating and PT of \$17. We believe the stock is under valued at current levels and should show superior growth prospects over other radiation therapy manufacturers due to: (1) the company's proprietary technology; (2) a large radiation therapy market opportunity with favorable demographics; (3) clinical efficacy that will drive increased Hi-Art system adoption; (4) significant backlog of \$248.0 million; and (5) a highly credible management team.

INCOME STATEMENT
Fiscal Year End - Dec
(\$ in millions, except per share data)

	2006			2007			2008E		
	Mar	Jun	Sept	Dec	2007	MarE	JunE	SeptE	DecE
Sales	\$51.2	\$43.7	\$59.2	\$78.7	\$232.8	\$56.4	\$62.0	\$81.4	\$100.7
Cost of Operations	102.1	29.4	29.2	50.4	146.1	35.3	38.7	50.3	62.0
Gross Profit	53.4	21.8	22.1	28.3	86.7	21.1	23.2	31.1	38.7
SG&A	23.1	8.6	9.1	11.1	42.3	13.6	13.7	13.9	14.0
R&D	21.4	7.2	7.7	9.6	34.3	9.2	9.5	10.2	10.4
Stock Base Comp Expense	0.1	0.1	0.1	0.8	2.9	0.9	1.0	1.1	1.0
Operating Expense	44.5	15.8	16.8	20.8	23.3	73.6	22.8	23.2	24.1
Operating Income	8.9	6.0	(2.3)	1.3	5.0	(0.1)	(1.7)	0.0	7.0
Interest Inc. (Exp.), net	1.3	(0.1)	1.2	2.8	2.4	6.1	2.5	2.6	2.7
Other Income (Exp.)	(2.5)	0.2	(0.1)	0.0	0.0	0.1	0.0	0.0	3.0
Pretax Income	7.7	6.1	(1.2)	4.1	7.4	(6.1)	0.8	2.6	9.7
Income Tax	(7.2)	2.2	(0.5)	1.5	2.6	5.8	0.3	1.0	3.9
Tax Rate	0%	37%	0%	37%	35%	40%	40%	40%	40%
Extraordinary Items	(24.9)	0.8	(102.6)	0.0	0.0	0.0	0.0	0.0	0.0
Net Income - As Reported	14.9	3.9	(0.7)	2.6	4.8	10.6	0.5	1.6	5.8
Net Income - From Operations	15.1	4.6	0.0	3.4	5.6	13.6	1.0	2.2	6.4
Shares Outstanding	8.9	42.2	43.9	54.4	54.1	48.6	54.2	54.3	54.4
EPS - As Reported	\$1.62	\$0.09	(\$0.01)	\$0.05	\$0.09	\$0.24	\$0.01	\$0.11	\$0.19
Fully-taxed cash EPS excluding option expense	\$1.63	\$0.11	\$0.00	\$0.06	\$0.10	\$0.27	\$0.02	\$0.12	\$0.20
Margin Analysis									
Gross Margin *	34.2%	42.6%	33.2%	37.3%	35.9%	37.2%	37.4%	37.5%	38.2%
SG&A - % Revenue	14.8%	16.9%	20.8%	18.8%	17.1%	18.2%	24.1%	22.1%	17.1%
R&D - % Revenue	13.7%	14.0%	17.6%	16.3%	12.5%	14.7%	16.3%	15.4%	12.5%
Operating Margin	5.7%	11.8%	5.2%	2.2%	6.3%	4.3%	-3.0%	0.0%	8.6%
Pretax Margin	5.0%	12.0%	-2.7%	6.9%	9.4%	7.0%	1.4%	4.2%	11.9%
Net Margin	9.6%	8.9%	0.0%	5.7%	7.1%	5.8%	1.8%	3.5%	7.9%
Percentage Change (Y/Y)									
Revenue (Y/Y)	106.3%	86.3%	37.2%	59.3%	32.1%	49.1%	10.2%	41.7%	37.4%
Revenue (Q/Q)	NM	-14.2%	-14.6%	35.5%	32.9%	NM	-28.4%	9.9%	31.3%
Operating Income (Y/Y)	NM	NM	NM	NM	NM	NM	NM	NM	23.8%
Operating Income (Q/Q)	NM	NM	NM	NM	NM	NM	10.2%	33.8%	24.4%
Net Income (Y/Y)	NM	NM	NM	NM	NM	NM	NM	NM	95.9%
Net Income (Q/Q)	NM	NM	NM	NM	NM	NM	110.6%	198.5%	71.8%
Cash EPS (Y/Y)	NM	NM	NM	NM	NM	NM	NM	NM	36.8%
Notes:									

Source: Company reports and Jefferies & Company estimates.

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REVENUE MODEL
Fiscal Year End - Dec
(\$ in millions)

	2006			2007			2008E			2009E		
	Mar	Jun	Sep	Dec	2007	Mar	Jun	Sep	Dec	2008E	2009E	
Systems Backlog <i>(does not include service contracts)</i>												
Total Hi-Art	164.5	161.4	206.7	228.0	248.0	273.0	299.0	318.0	342.0	342.0	344.3	
U.S.	98.7	96.8	124.0	136.8	148.8	163.8	179.4	190.8	205.2	205.2	260.6	
Intl	65.8	64.6	82.7	91.2	99.2	109.2	119.6	127.2	136.8	136.8	173.7	
New Hi-Art System Orders	\$213.3	\$45.4	\$82.0	\$73.0	\$91.6	\$292.0	\$74.5	\$81.0	\$93.3	\$117.5	\$66.3	
Percentage Change (Y/Y)	65.7%	55.5%	48.7%	56.2%	50.8%	50.8%	69.1%	44.7%	39.5%	37.9%	37.9%	
Hi-Art Backlog	65.7%	55.5%	48.7%	56.2%	50.8%	50.8%	69.1%	44.7%	39.5%	37.9%	37.9%	
U.S.	65.7%	55.5%	48.7%	56.2%	50.8%	50.8%	69.1%	44.7%	39.5%	37.9%	37.9%	
Intl	65.7%	55.5%	48.7%	56.2%	50.8%	50.8%	69.1%	44.7%	39.5%	37.9%	37.9%	
New Hi-Art System Orders	105.5%	47.7%	25.6%	73.7%	21.7%	36.9%	64.1%	-1.2%	27.7%	28.2%	25.1%	
Shipments												
Hi-Art U.S. Unit Placements	33	10	8	13	17	48	10	11	16	21	58	
Hi-Art International Unit Placements	23	8	6	8	9	31	8	9	11	13	41	
Total Hi-Art Unit Placements	56	18	14	21	26	79	18	20	27	34	99	
Hi-Art Installed Base	108	126	140	161	187	187	205	225	252	286	286	
Revenue												
Hi-Art System Revenue	49.8	48.6	37.1	52.7	71.6	210.0	49.5	55.0	74.3	93.5	272.3	
SBLR Grant Revenue	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.2	
Service Contract Revenue	6.7	2.5	6.5	6.4	6.9	22.2	6.7	6.8	6.9	7.0	27.4	
Other Revenue	1.2	0.1	0.1	0.1	0.2	0.5	0.1	0.1	0.1	0.1	0.6	
Total Revenue	\$51.2	\$33.7	\$59.2	\$78.7	\$52.8	\$56.4	\$62.0	\$81.4	\$100.7	\$300.4	\$392.9	
Percentage Change (Y/Y)	87%	100.0%	16.7%	61.5%	18.2%	41.1%	0.0%	42.9%	28.6%	30.8%	25.3%	
Hi-Art Unit Placements	101.3%	85.2%	23.4%	50.4%	26.2%	41.8%	1.9%	48.2%	40.9%	30.5%	29.6%	
Hi-Art System Revenue	63.91%	107.3%	363.7%	252.3%	193.5%	229.3%	172.0%	5.3%	8.1%	1.4%	23.4%	
Service Contract Revenue	76.7%	NM	-64.3%	-64.8%	-67.6%	-57.2%	20.0%	12.0%	20.8%	-2.0%	11.3%	
Other Revenue	106.1%	86.3%	37.2%	59.3%	32.1%	49.1%	10.2%	41.7%	37.4%	28.0%	29.0%	

Notes:

Source: Company reports and Jefferies & Company estimates.

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Company Description

TomoTherapy developed the Hi Art system, an advanced and versatile radiation therapy system, to treat a wide range of cancers. The company's proprietary Hi Art system incorporates integrated CT imaging with radiation therapy to deliver radiation therapy with more precision and accuracy, which in turn reduces radiation exposure to surrounding healthy tissue. The Hi Art system contains a linear accelerator which delivers therapeutic radiation in a unique helical, or spiral, delivery pattern 360 degrees around the body. This integrated design represents an advancement over traditional radiation therapy systems, which utilize a C-arm (single, rotating arm) that can deliver radiation from only a limited number of angles. TOMO's helical delivery pattern and imaging capabilities, combined with the system's advanced treatment planning software and ability to precisely shape the beam delivering radiation, allow clinicians to locate and define the size, shape and density of tumors, maximize radiation delivered to diseased tissue, minimize radiation delivered to healthy tissue and measure the radiation dose actually received by the patient. We believe these capabilities allow the Hi Art system to deliver sophisticated dynamic IMRT/IGRT radiation treatments with speed and precision while improving patient outcomes.

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I, Mark Richter, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Joshua Jennings, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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In February 2007, Jefferies acted as co-manager in the initial public offering of common stock for Accuray Incorporated.

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Jefferies makes a market in TomoTherapy Inc.

Jefferies makes a market in Accuray Incorporated.

Jefferies makes a market in Hologic, Inc.

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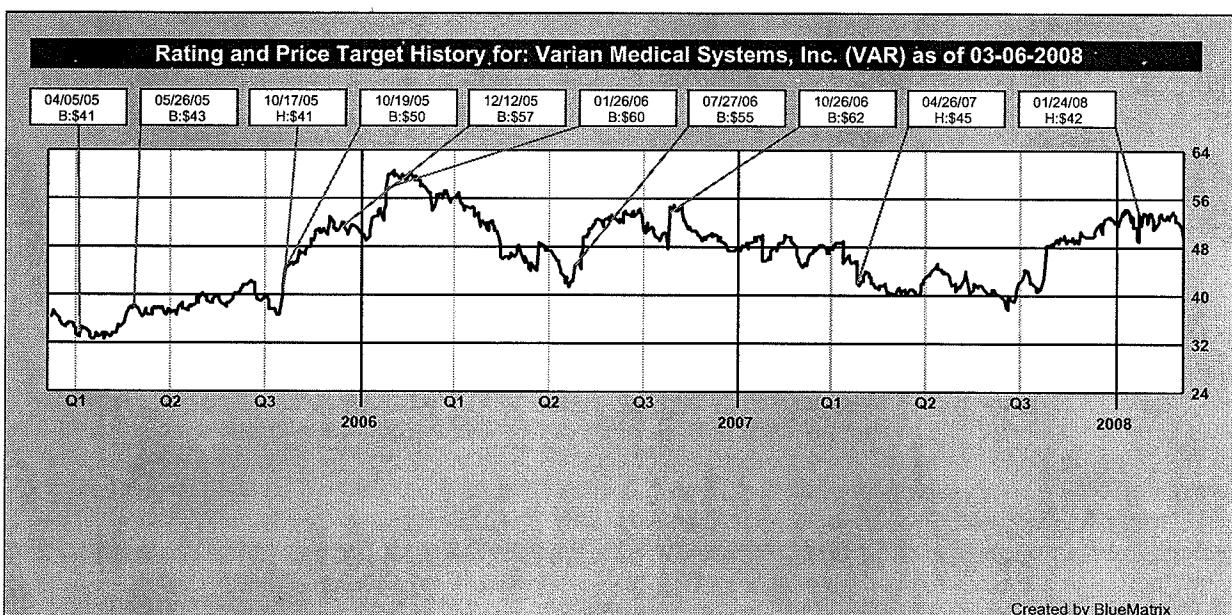
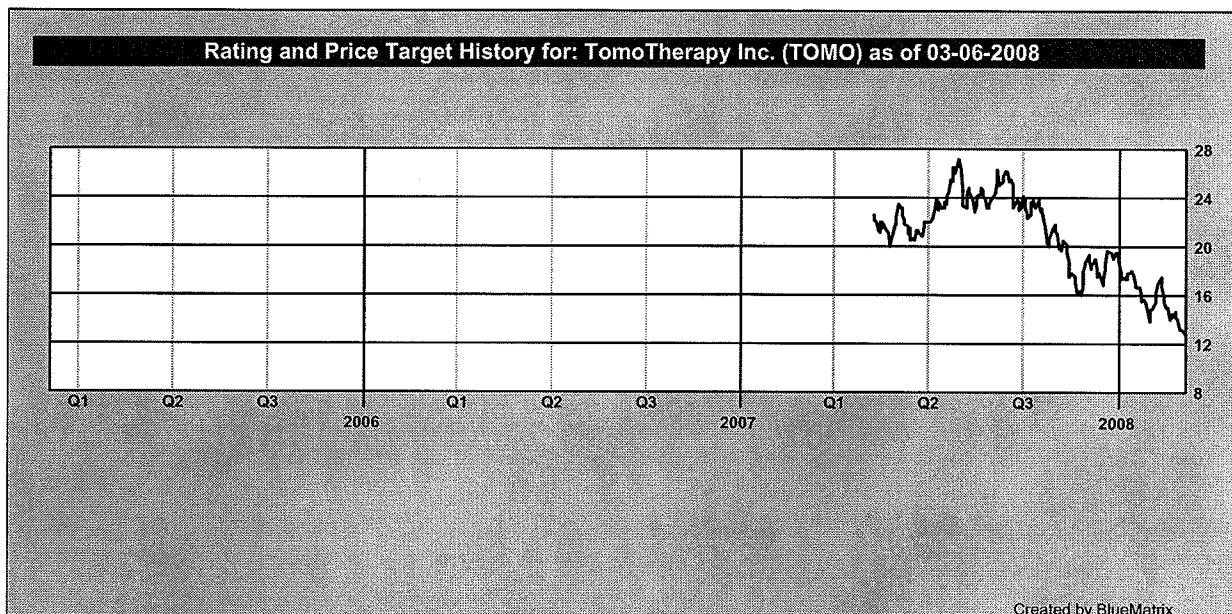
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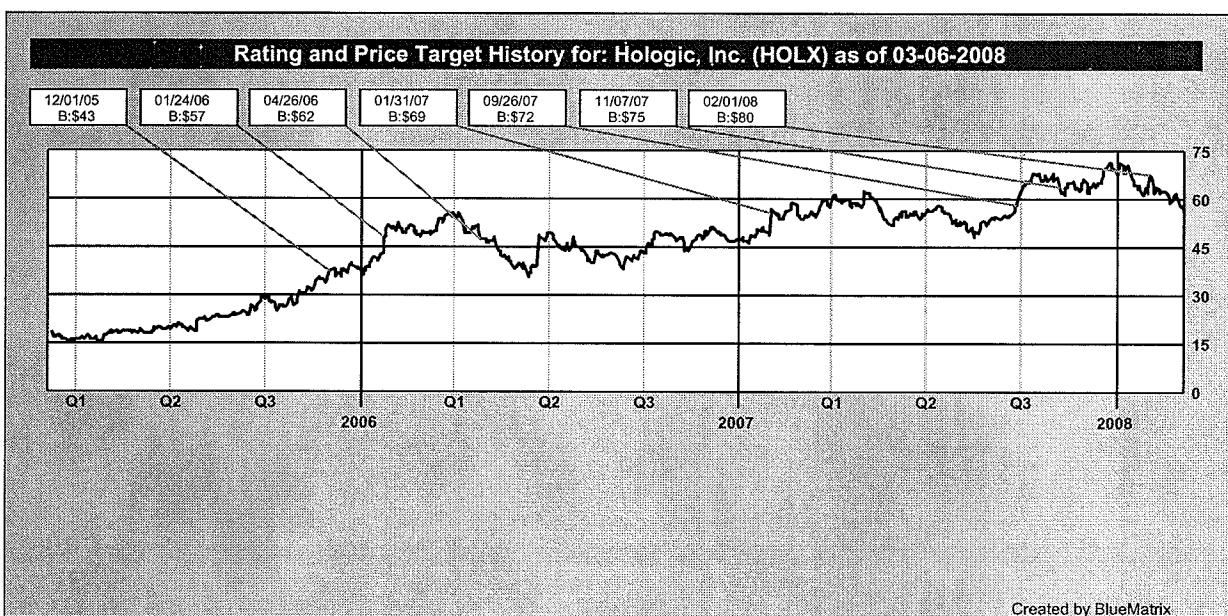
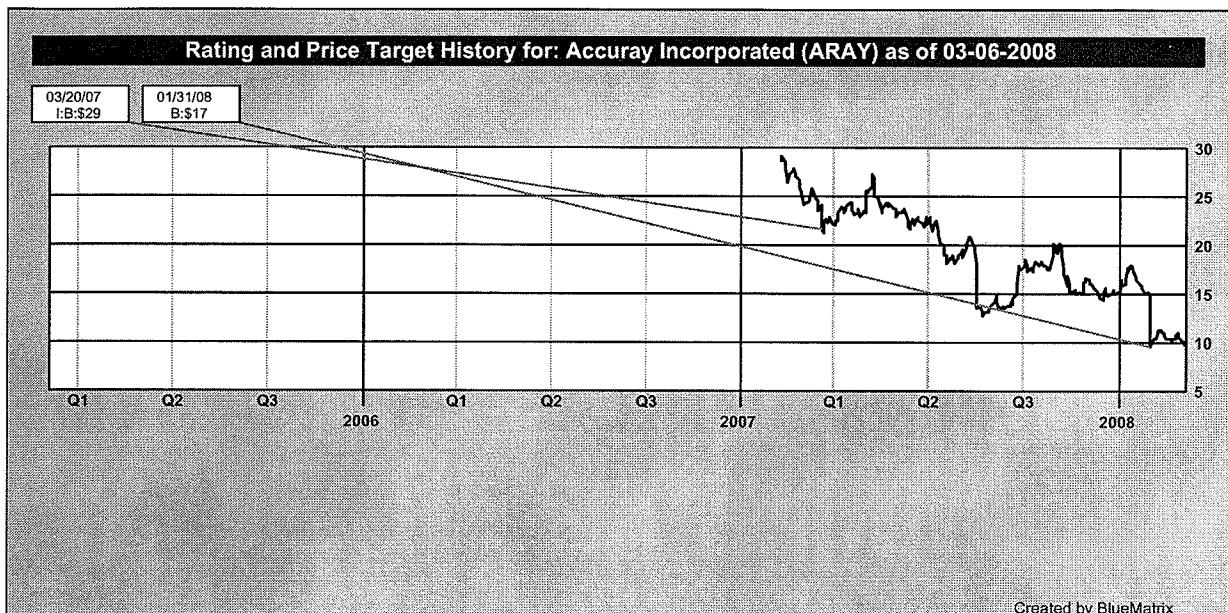
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Distribution of Ratings

IB Serv./Past 12 Mos.

Rating	Count	Percent	Count	Percent
BUY [BUY/ SB]	511	60.12	61	11.94
HOLD [HOLD]	323	38.00	25	7.74
SELL [SU/ UNPF]	16	1.88	3	18.75

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Equity Research

HEALTH CARE

Medical Devices

December 5, 2007

Update Report (07-116)

Ticker: TTPY (Nasdaq)

Price: \$18.19

52-week: \$15.85-\$27.58

Stock Rating:

Outperform

Company Profile:

Aggressive

Growth

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312.364.8828
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Liping Cai
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TomoTherapy Incorporated

Look Beyond the Marketing Hype

November was interesting, with lots of questions raised and answered (albeit in a one-sided fashion) regarding TomoTherapy. As we discuss below, yes, the story is more complicated, but no, we do not believe that the fundamentals have changed all that much. **Valuation does matter, and we believe the stock is inexpensive; we strongly recommend purchase of TomoTherapy.**

TomoTherapy remains competitive in the market following new product announcements by Varian Medical Systems, Inc. and Elekta. Their new volumetric-modulated arc therapy (VMAT) products were developed in response to TomoTherapy's strong market success with Hi Art and may take away some of the uniqueness of the Hi Art from a marketing standpoint. But we expect TomoTherapy to continue taking market share given its strengthening field presence, still-compelling technological capabilities, and new product initiatives.

Varian's use of only one rotation severely limits how completely and precisely the RapidArc can deliver the radiation dose. Elekta's patent on multiple arcs creates this constraint. Varian's marketing gurus have smartly painted this constraint as a speed advantage, while our conversations with multiple physicists indicate that using only a single arc will lead to suboptimal dose distribution.

Our field checks since October's American Society for Therapeutic Radiology and Oncology (ASTRO) meeting indicate that orders remain strong for TomoTherapy despite all the market buzz and investor interest in the new competing systems. We expect TomoTherapy, with a \$228 million backlog, to hit or exceed our revenue targets for fourth quarter 2007 (\$63 million, up 6%) and full year 2008 (\$297 million, up 37%).

FINANCIAL SUMMARY

Fiscal Year Ends:	December	Long-Term EPS Growth Rate:	35%
Cash and Equivalents:	\$185 million	Diluted Common Shares:	49.6 million
Insider Ownership:	26%	Market Value:	\$902 million
FISCAL YEAR	2006A	2007E	2008E
ESTIMATES			
Earnings Per Share	\$1.68	\$0.18	\$0.44
EBITDA (mil.)	\$12.0	\$13.8	\$36.8
Revenue (bil.)	\$156	\$217	\$297
VALUATION			
EV/Sales Ratio	4.6x	3.3x	2.4x

William Blair & Company, L.L.C. has received compensation for investment banking services from the company within the past 12 months, or expects to receive or intends to seek compensation for investment banking services in the next 3 months.

Please consult pages 15 and 16 of this report for all disclosures.

Investment Summary

We view TomoTherapy as a compelling pure-play investment in the \$2.3 billion annual market (growing in the low teens) for radiation therapy systems to treat cancer. With strong demographic trends, solid reimbursement, improving technology and a strong marketing push driving the upgrade/replacement cycle, and burgeoning international demand, we expect the market to remain robust for many years and for TomoTherapy to capture increased market share within that framework.

Although the volumetric-modulated arc therapy (VMAT) products announced by Varian and Elekta may take away some of the uniqueness of the Hi Art system—largely from a marketing standpoint—we believe TomoTherapy will be able to continue its market penetration given its strengthening field presence, still-compelling technological capabilities, and new product initiatives to become more of a workhorse linear accelerator (linac). Specifically, over the next year we expect TomoTherapy to deliver on improved system reliability and topotherapy (to speed breast cancer treatment) as well as leverage recently announced partnerships to expand its radiosurgery capabilities. These enhancements should become available as Varian plans to roll out its copycat arc therapy systems with only modest amounts of clinical validation. ***As physicists and radiation oncologists get detailed looks at the treatment plans that RapidArc can deliver (and see the suboptimal dose distribution that it will deliver given that it can only use one rotation), we expect some of the hype surrounding this new product launch to fade.***

We expect TomoTherapy, as the leading innovator in the field, to grow much faster than the overall market for radiation therapy systems and continue to build its installed base. Given our unchanged outlook for 35%-40% revenue growth and faster EPS growth over the next several years, we reiterate our Outperform rating.

Solid Competitive Position; Strong Sales Expected

TomoTherapy, Varian, and Elekta were the center of attention at the recent ASTRO meeting. While TomoTherapy launched a series of new products to improve its Hi Art system and technology platform, Varian and Elekta came out with their own VMAT solutions (RapidArc by Varian and Infinity by Elekta) to close the gap between their offerings and Hi Art. While there was a lot of buzz around the VMAT products going into and after ASTRO, our channel checks indicated order flows for Hi Art remain strong and have not felt much impact. ***Combined with an outstanding backlog of \$228 million, we believe TomoTherapy can hit or exceed our revenue expectations for both fourth quarter 2007 (\$63 million, up 6%) and full year 2008 (\$297 million, up 37%).*** Backlog is expected to convert to revenue within the next 12 months.

The VMAT products were announced during ASTRO, and we expect 510(k) approval in the near term for Varian and in the spring for Elekta. We expect both products to be commercially available in the spring. We believe there is sufficient room for TomoTherapy to grow its installed base of Hi Art between now and toward the end of 2008. As discussed in detail in the next section, the recent upgrades and pending releases from TomoTherapy's R&D pipeline should allow the company to stay ahead of its competitors and deliver sustainable growth beyond 2008, in our view.

Table 1 is a high-level comparison of the three main competing systems on the market following the ASTRO meeting. Overall, we believe Hi Art will remain a preferred system by many cancer centers, given its superiority in a number of critical attributes, including ***system integration, ease of use for treatment planning and delivery, conformal dose distribution, and success as a patient marketing tool.***

Table 1
Overall Comparison of Main Competing IGRT Systems

TomoTherapy's strengths	<u>Hi Art</u>	<u>RapidArc</u>	<u>Infinity</u>	<u>Elekta</u>	<u>Note</u>
Manufacturer	TomoTherapy	Varian	Elekta		
System integration	++++	+++	+++	+++	Hi Art is the most integrated and user-friendly system
Conformal dose distribution	++++	+++	+++	+++	Dose distribution is the most conformal with Hi Art
Field size of cancer target	++++	+++	+++	+++	Hi Art is the only system capable of total body (bone marrow) irradiation
Patient marketing	++++	+++	+++	+++	TomoTherapy is differentiated in patients' minds
Broad application	++++	++++	+++	+++	Hi Art can be used to treat all types of cancer, but is currently less efficient than the Varian or Elekta Systems for certain cancer types, such as breast cancer
Open platform	+++	+++	+++	+++	TomoTherapy is working diligently to allow its treatment plans to be shared between Hi Art and other systems
Reliability	+++	++++	+++	+++	Reliability of Hi Art has improved significantly over the past few years and is currently at over 97%, which is a little lower than the 98% 99% uptime reported for the Varian and Elekta Systems
Productivity	+++	++++	+++	+++	The 30 patients per day that can be handled by Hi Art, while a little lower than other more traditional linacs (up to 35), is not a significant issue for most cancer centers, but should improve next year
Pricing	+++	+++	+++	+++	All three fully loaded systems are expected to have similar ASPs of close to \$3 million
					Recent upgrades and pending releases should bolster these parameters

Source: Company reports and William Blair & Company, L.L.C. estimates.

Key Advantages of Hi Art

Well-integrated system. We believe system integration will continue to be a key differentiating factor for TomoTherapy on the market. With Hi Art, treatment planning, daily imaging, treatment delivery, and dose verification are nicely integrated, significantly lowering the learning curve and streamlining the treatment process. While the VMAT products help TomoTherapy's competitors narrow the technology gap between their systems and Hi Art, these products will remain on the older, modular platforms. These platforms are cumbersome and not user friendly. Clinicians sometimes need to juggle around four monitors when using a Varian system to treat patients. As TomoTherapy continues to introduce software and hardware upgrades to further increase the patient throughput and reliability of Hi Art, we believe its platform will become even more powerful.

Conformal dose distribution. The ultimate goal of radiation therapy is to deliver high radiation doses to the tumor targets while minimizing peripheral doses to the surrounding normal tissues and structures. TomoTherapy has always sold its system as the one to deliver the optimal dose distribution; we do not believe this will change with the introduction of RapidArc. The ring gantry design for slice-based, helical delivery allows Hi Art to deliver radiation to the cancer target from thousands of angles. Varian's use of only one rotation severely limits how completely and precisely the RapidArc can deliver the radiation dose. Elekta's patent on multiple arcs creates this constraint. Varian's marketing gurus have smartly painted this constraint as a speed advantage, while our conversations with multiple physicists indicate that using only a single arc will lead to suboptimal dose distribution.

Superior dose modulation. TomoTherapy is considered the gold standard for image-guided radiation therapy, as its helical delivery mechanism combined with its integrated treatment planning algorithm enables a degree of radiation dose modulation that is unmatched by the competitors. While Varian's interdigitating multileaf collimator (MLC) allows RapidArc to perform a certain level of beam shaping and dose modulation, the overall system is constrained by the single-arc rotation. Given Elekta's patent on multiple arcs, the company's Infinity product can modulate doses better than RapidArc, but still cannot match up with TomoTherapy, especially for more complicated cases.

Total body irradiation. Hi Art is the only system on the market capable of delivering full body irradiation in one setup. The other systems can cover a field size of only up to 40 cm (width) x 25 cm (length), much smaller than Hi Art's 40 cm (width) x 160 cm (length). While the percentage is low (less than 1%) for cancer patients who require a full-body treatment (e.g., bone marrow metastasis), this is an important validation of Hi Art's differentiated technologies compared with its competitors.

Great patient marketing tool. Radiation therapy is becoming increasingly patient-driven, as information is now readily available from different sources including the Internet. Our field checks revealed that owning a Hi Art system has allowed the cancer centers to market their services effectively to cancer patients and enabled them to compete against other centers in the area. Patients often come in to a cancer center knowing exactly how they want to be treated. Arc therapy should also be attractive from a marketing standpoint, as it allows TomoTherapy's competitors to promote the concept of "rotational radiation delivery," the foundation of TomoTherapy's approach.

Continued Innovation Should Deliver Sustainable Growth Beyond 2008

TomoTherapy has been active with various R&D projects and also formed multiple third-party partnerships with the goal to extend Hi Art into a more general-purpose system for the treatment of both complicated and simpler cancer cases. Recent product launches include the High Performance Couch and the StatRT software package for palliative treatments. We expect continued innovations to come out of these initiatives in 2008 and beyond. We believe these development efforts will allow TomoTherapy to stay one step ahead of its competitors and continue to capture share.

While our field checks consistently reveal that TomoTherapy is technologically superior to other systems available and is capable of treating all types of cancers, clinicians often reserve the system for the treatment of more complex cancer cases when there is more than one system at the cancer center. This is mainly because the Hi Art is less efficient for the treatment of certain cancer types, such as breast cancer, and requires more time for information exchange between it and other systems. ***We believe TomoTherapy's focus on R&D will pay off over time, as the development of Hi Art into a more general-purpose system will make it more appealing not only to cancer centers with multiple systems from other manufacturers (being able to easily transfer information among different systems), but also to cancer centers that own only one radiation therapy system (being able to use one unit for efficient treatment of all types of cancers).*** This will ultimately drive further market penetration of Hi Art.

Following are descriptions of several ongoing R&D projects and third-party partnerships.

Reliability Improvements

Reliability of certain Hi Art components has arisen as an issue during our field checks with a number of cancer centers, although most centers indicated that reliability has improved significantly over the past year. The High Performance Couch introduced at the ASTRO meeting is a significant improvement over the original couch in both reliability and productivity. The original couch has caused various problems during treatment, as it was not specifically designed for radiation therapy. In terms of productivity, according to the cancer centers that tested the new couch, a Hi Art system can treat up to 30 patients each day with the new couch, up from the current 20 to 25 patients. Because many cancer centers are constrained on capacity, this productivity improvement would be important for them. TomoTherapy is also diligently working to improve the overall reliability of the Hi Art system through identifying new vendors and improving the design of certain system components. Combined with an experienced field service organization, we believe reliability will become less of an issue for the end-users over time.

Productivity Enhancements

In addition to the new couch, TomoTherapy is engaged in multiple R&D projects to enhance system productivity. These include software upgrades for improving efficiencies of the imaging protocols, an engineering upgrade to enable clinicians to start patient treatment remotely outside the bunker room, and topotherapy (discussed in more detail below). We believe these upgrades will eventually bring Hi Art to a comparable productivity level to the more traditional linear accelerators (linacs) in clinical practice.

Broader System Application

To extend Hi Art into a more general-purpose system that clinicians will use for the treatment of both complicated and simpler cancer cases, TomoTherapy is developing applications both internally and through third-party partnerships. One significant upgrade that we expect to hear more about within the next 12 months is topotherapy. Topotherapy is a simplified version of TomoTherapy and should increase the efficiency when using Hi Art to treat simpler cases such as breast cancer. Rather than delivering treatment in a helical 360-degree

fashion, topotherapy stops the ring gantry at fixed positions, which is similar to the typical approach in treating breast cancer patients. Our conversations with radiation oncologists and medical physicists from cancer centers revealed to us that there is a great deal of interest in topotherapy, which is undergoing beta testing. This is an important development for cancer centers that have only one radiation therapy system, as they use a single unit to deliver treatment for all types of cancers.

Third-Party Partnerships

TomoTherapy formed a few third-party partnerships around the ASTRO meeting; these relationships will allow the company to offer or develop solutions to increase the usability of the Hi Art system. We view the formation of third-party partnerships as a smart strategy, as it shortens the time to develop new solutions and also demonstrates TomoTherapy's commitment to become a more open platform. The partnership with Integra Radionics offers a suite of products, including head frames and fixation tools for stereotactic radiosurgery; the partnership with IBA and PTW offers advanced quality-assurance tools; the partnership with RaySearch Laboratories will develop a suite of software tools to enable efficient treatment plan transfer between Hi Art and other systems. We estimate that more than 50% of the cancer centers in the United States have multiple radiation therapy systems, which are often made by different manufacturers. Being able to transfer treatment plans (and thus patients) efficiently between Hi Art and other systems will increase the appeal of Hi Art for these centers, in our opinion.

Table 2 is our forecast of the market for radiotherapy systems in the next several years. Our estimates of market growth in the low teens may turn out to be conservative as the new technologies drive faster replacement cycle and expand new placement opportunities. Both Varian and Elekta at the recent investor events talked about their extensive marketing strategies to support the VMAT products. In our opinion, these marketing efforts are likely to push market growth higher and accelerate the replacement cycle for the existing linacs; this stands to benefit TomoTherapy as well. In addition, we expect TomoTherapy to continue expanding its salesforce (17 today and headed into the mid- to high 20s over the next year), which should allow the company to see and thus participate in a much higher percentage of bidding opportunities in 2008 and beyond (from only 30%-50% of bids accepted in 2007). *In our experience speaking with radiation oncologists and physicists, while many of them are aware of TomoTherapy and the market impact it has had, most do not have an in-depth appreciation of the technology, as they have never been detailed by a TomoTherapy salesperson. As the company expands its field organization, we expect that dynamic to change.*

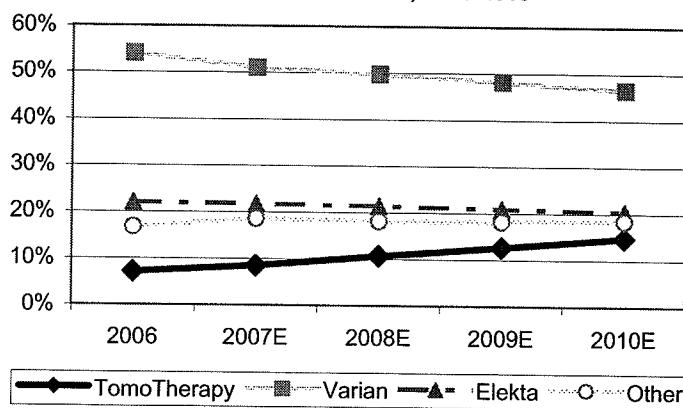
Table 2
 Forecast for Radiotherapy Systems Market, 2007 to 2010
 (\$ in millions)

	<u>2006</u>	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>
Revenues from radiotherapy systems					
Varian Medical Systems	\$1,118	\$1,172	\$1,279	\$1,395	\$1,522
TomoTherapy	148	196	275	367	483
Accuray	74	141	165	211	271
Elekta	455	501	551	606	666
Siemens	228	239	251	263	277
Other	46	48	50	53	55
Total market size	\$2,068	\$2,296	\$2,570	\$2,895	\$3,273
Market share					
Varian Medical Systems	54%	51%	50%	48%	46%
TomoTherapy	7%	9%	11%	13%	15%
Accuray	4%	6%	6%	7%	8%
Elekta	22%	22%	21%	21%	20%
Siemens	11%	10%	10%	9%	8%
Other	2%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%
Growth rates					
Varian Medical Systems	16%	5%	9%	9%	9%
TomoTherapy	101%	32%	41%	34%	32%
Accuray	526%	90%	17%	28%	28%
Elekta	5%	10%	10%	10%	10%
Siemens	5%	5%	5%	5%	5%
Other	5%	5%	5%	5%	5%
Total	12%	11%	12%	13%	13%

Source: Company reports and William Blair & Company, L.L.C. estimates

While we expect Varian to remain the market leader with its largest installed base of more than 5,000 linacs, we believe Varian's market share (on a dollar basis) will come down modestly from more than 50% today to about 46% by the end of the decade. TomoTherapy, in our opinion, will take a fair bit of the share given up by Varian. We have modeled market share of TomoTherapy at 15% by the end of 2010, from today's level in the high single digits. Again, this market share is on a dollar basis and reflects the relatively immature stage of TomoTherapy's service business and upgrade activities today. Over time, these should grow, and we expect the company's revenue share to approximate its unit share (discussed in the following section).

Figure 1
 Market Share Forecast, 2006-2010



Source: Company reports and William Blair & Company, L.L.C. estimates

Market Outlook and Growth Opportunities

We estimate that the market for radiation therapy and radiosurgery systems was roughly \$2.0 billion in 2006, should reach \$2.3 billion for 2007, and will continue growing at a double-digit rate for several years, driven by various factors, including an aging population, growing cancer incidence, improving radiotherapy and radiosurgery technologies, and vastly underserved international markets.

First, the demographic trend will continue to drive demand for radiation therapy. About 80% of all cancer diagnosis is made in people of 55 years or older. The U.S. Census Bureau projects that the population over 65 years old will more than double from 2000 to 2050, which will likely lead to higher cancer incidence. The American Cancer Society estimates there will be 1.4 million new cancer cases diagnosed in 2007 in the United States and that cancer will account for one in every four deaths. With the advent of the more advanced radiation technologies, including IMRT (intensity-modulated radiation therapy), IGRT (image-guided radiation therapy), and proton therapy, more cancer patients become eligible for radiation treatments.

Second, technological advances in image guidance and adaptive therapy will accelerate the upgrade cycle of currently installed systems and increase new placement demand for radiotherapy systems. We estimate about 30% of the 9,000 installed systems worldwide will be replaced or upgraded by the end of the decade as their typical 10- to 12-year life cycles wrap up. We believe the majority of the units demanded for new placement, replacement, or upgrade purposes will be the more advanced IGRT systems, given the clinical benefits of image guidance in the treatment of cancer patients and many institutions' desire to stay at the forefront of medicine and remain competitive within their communities. Since TomoTherapy's Hi Art system is an integrated IGRT system and can be a great patient marketing tool, we believe it will remain a top choice for many cancer centers that consider the purchase of an IGRT system.

Last, the international market is significantly underpenetrated today and will be an important market growth driver in the long run. Compared with about 12 systems per million population in the United States, there is just one system per million population internationally. We expect demand for radiation therapies to increase significantly as economic development enables hospitals to afford the capital-intensive radiation facilities and equipment.

Worldwide Placement Opportunities for Radiation Therapy Systems, 2006 to 2010

In the following text and in table 3, we summarize the worldwide market opportunities for radiation therapy systems from both new placement and replacement (upgrade) opportunities.

Table 3
Radiation Therapy Systems Global Opportunity, 2006 to 2010

	<u>2006</u>		<u>2010E</u>	
	<u>US</u>	<u>OUS</u>	<u>US</u>	<u>OUS</u>
Population (millions)	302	6,300	309	6,800
# linacs per million population	11.9	0.9	12.9	0.9
Installed base	3,600	5,400	3,977	5,999
New placements, 2007-2010			377	599
<u>Replacement systems</u>				
% replaced by 2010 (vs. 2006)			37.5%	25.0%
Replacements, 2007-2010			1,350	1,350
Market demand, cumulative			1,727	1,938

Source: Company reports and William Blair & Company, L.L.C. estimates

As shown in table 3, the market outside the United States is significantly underserved. We estimate by the end of the decade, penetration in the United States will increase to 12.9 linacs per million population; internationally, we estimate penetration will increase marginally but remain at about 1.0 linac per million population by 2010. Total new placement opportunities came in at about 1,000 units from 2007 to 2010, with more system orders coming from outside the United States. TomoTherapy plans to expand its sales coverage for various international regions, including Eastern Europe, Latin America, and Australia; we believe this will help the company capitalize on the significant international growth opportunities.

In the meantime, currently placed systems will be up for replacement as they get closer to the end of their average life cycle of 10 to 12 years. We estimate that about 50% of the currently placed 5,500 Varian systems are seven years or older. We expect 38% of the currently installed systems in the United States and 25% internationally will be replaced by 2010. *Overall, linacs system installation opportunities, combining both new placements from increasing penetration and replacements from system upgrades, come in at about 3,700 from 2007 to 2010. These market projections correlate with our outlook for low-teens growth in the systems market over the next several years.*

Hi Art Sales Forecast, 2007 to 2010

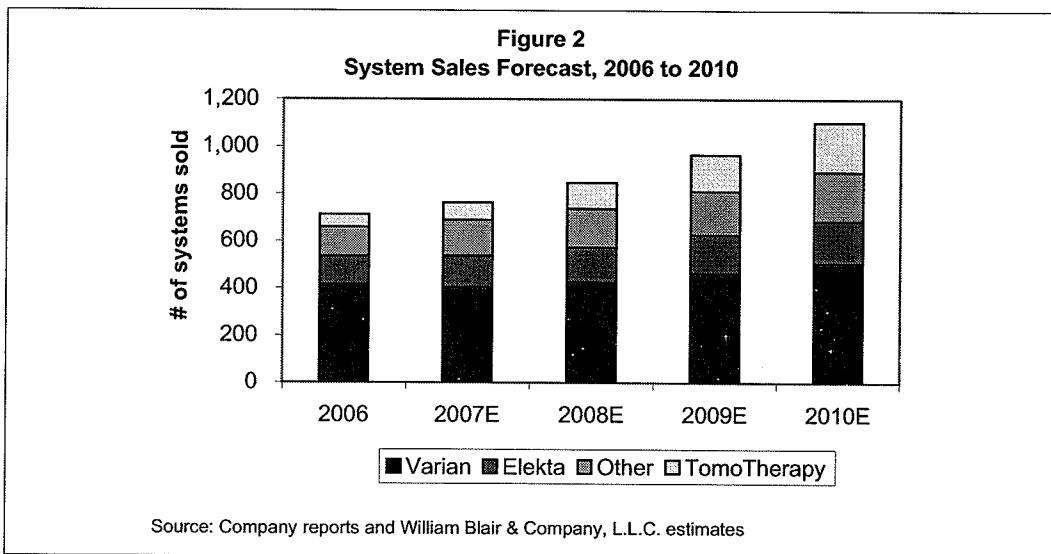
We estimate the number of systems sold worldwide each year will continue to grow from more than 700 in 2006 to about 1,100 in 2010, with international opportunities representing a higher percentage of sales than the United States over time. Within the United States, we believe replacement units will continue to represent a majority of systems sold as the innovative technologies drive a faster replacement cycle of the installed systems. Outside the United States, various factors, including population growth, higher market penetration, and replacement of older units, constitute the driving force of system sales.

Table 4
TomoTherapy Incorporated
Sales of Radiation Therapy Systems: Five-Year Forecast

	<u>2006</u>	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>	<u>2010E</u>
Total # of systems sold	711	762	847	965	1,102
% sold in the U.S.	50%	50%	48%	46%	45%
% sold OUS	50%	50%	52%	54%	55%
# sold in the U.S.	356	381	406	444	496
Replacement	267	290	313	351	397
% in the U.S.	75%	76%	77%	79%	80%
New placement	89	91	93	93	99
% in the U.S.	25%	24%	23%	21%	20%
# sold OUS	356	381	440	521	606
Sales of Hi Art	NA	74	110	155	210
Market share	NA	10%	13%	16%	19%

Source: Industry reports and William Blair & Company, L.L.C. estimates

Sales of Hi Art will increase to more than 200 units in 2010, representing 19% of total units sold, from about 74 units, or 10% of total units sold, in 2007, according to our estimates. This unit share number is significantly higher than our assumption for 15% revenue share given the other companies' established service programs as well as more significant upgrade activities. We believe this is a reasonable estimate given the differentiating characteristics of Hi Art, including the highly conformal dose distribution, the smaller form factor and size of the system, sleek integrated design of the imaging and treatment delivery functionalities, streamlined treatment planning system, and highly responsive customer service. Compound annual growth of Hi Art unit sales comes in at about 30% from 2007 to 2010, significantly outpacing the roughly 10% market growth rate.



Reimbursement

Medicare/Medicaid is the predominant payment source for radiation oncology procedures. Since the majority of radiotherapy treatments are performed in an outpatient setting, these procedures are covered under the Medicare Outpatient Prospective Payment System (OPPS). Reimbursement for radiation therapy overall has been stable to positive in the past several years.

On November 1, 2007, CMS (Centers for Medicare & Medicaid Services) released the final OPPS rule for calendar 2008. In the final rule, overall reimbursement for image-guided radiation therapy decreased by about 7% from the 2007 level of about \$19,000 for a treatment course of 30 fractions. In our opinion, this decrease will not change how patients are treated in clinical practice for the following reasons:

- The new reimbursement level, although a little lower than last year, is still sufficient for the hospitals to be profitable. Typically, it takes between 12 and 18 months for a hospital to break even on the purchase of an IGRT system such as Hi Art. This reimbursement change does not meaningfully affect the return-on-investment profile.
- Significant clinical benefits of IGRT have been published extensively, which will continue to drive the use of image guidance since patient outcome is the most important consideration for clinicians, in our opinion.
- Many clinicians are involved in academic research and therefore would like to stay at the forefront of the most innovative technologies.

Share Ownership

Following its May 2007 IPO, TomoTherapy has roughly 49.2 million shares outstanding. In October, selling shareholders offered 8.5 million shares in a follow-on offering, bringing the freely tradable shares of TomoTherapy to 22.6 million, representing roughly 45% of the outstanding shares. Following the secondary offering, TomoTherapy's management (including directors and executive officers) owns 25.6% of the outstanding shares (12.6 million), down from 36.0% (17.7 million) previously. For the top six venture capitalists, their ownership was 28.5% (14.1 million shares) following the secondary offering, down from 40.9% (20.2 million shares).

Roughly two million shares came off lock-up on November 17, and the next lock-up expiration date is January 1, 2008, when another 24 million shares will become freely tradable. Given the long holding period that many individual and venture investors have had with TomoTherapy, we expect some of those shares to be sold. But with the recent pullback and given the strong fundamental outlook we see at TomoTherapy, we expect many of those shares to remain closely held until we see the stock recover well above the \$20 level.

Valuation

On an enterprise basis, TomoTherapy is trading at 2.4 times our 2008 revenue target of \$297 million, at a 20% discount to market leader Varian at 3.0 times and a slight premium to niche player Accuray Incorporated. We expect TomoTherapy to capture additional market share and grow at a much faster pace than the overall market for the next several years as it builds on an already impressive technology platform. Given our outlook for 35%-40% revenue growth and faster EPS growth, we reiterate our Outperform rating.

Table 5
TomoTherapy Incorporated
Valuation

<u>Company</u>	<u>Ticker</u>	<u>Price</u> <u>(12/5/2007)</u>	<u>Mkt. Cap</u> <u>(\$millions)</u>	<u>LT Growth</u> <u>(%)</u>	<u>EV/Sales</u> <u>(2008)</u>
TomoTherapy	TTPY	\$18.19	902	35	2.4x
Accuray	ARAY	\$16.10	879	35	2.2x
Varian	VAR	\$49.74	6,223	15	3.0x

Source: Reuters, FactSet, and William Blair & Company, L.L.C. estimates

Additional information is available upon request.

This report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

Please contact us at (800) 621-0687 or consult http://www.williamblair.com/pages/eqresearch_coverage.asp for all disclosures.

DJIA: 13444.96
S&P 500: 1485.01
NASDAQ: 2666.36

Table 6
TomoTherapy Incorporated
Income Statement
(\$ in thousands)

	TomoTherapy Incorporated Income Statement (\$ in thousands)				TomoTherapy Incorporated Income Statement (\$ in thousands)				TomoTherapy Incorporated Income Statement (\$ in thousands)			
	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	FY 2006	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 (E) Dec-07	FY 2007 (E)	2006 (E)	FY 2009 (E)
Revenues												
Sales	\$26,239	\$30,074	\$45,027	\$56,781	\$148,121	\$43,600	\$37,100	\$52,688	\$57,200	\$105,588	\$275,000	\$367,150
SBR Grant Revenue	579	52	(7)	0	0	0	30	30	30	60	60	60
Service Contracts	925	1,383	1,812	2,351	6,744	2,463	6,460	6,383	5,720	21,525	35,961	35,961
Other	925	2	350	341	1,159	100	125	120	405	600	600	600
Total	\$75,754	\$27,462	\$1,889	\$37,173	\$59,598	\$56,102	\$51,163	\$43,715	\$69,221	\$27,169	\$287,205	\$403,811
% growth (yr-yr)	16.9%	7.7%	163.4%	172.3%	106.1%	58.3%	59.3%	37.2%	58.3%	39.1%	36.9%	35.9%
Sequential Growth												
Cost of goods sold	\$5,574	\$4,407	\$5,304	\$22,425	\$8,435	\$7,448	\$15,506	\$8,849	\$16,690	\$13,690	\$183,366	240,563
Operating Expenses:												
Research and development	11,372	3,457	6,164	7,369	21,397	7,155	7,892	9,624	8,600	33,071	39,500	50,198
SG&A	14,197	3,934	4,989	5,905	23,241	8,625	9,093	11,126	11,000	39,844	45,340	59,360
Total operating expenses	25,569	7,441	9,356	12,059	45,516	15,780	16,785	20,750	19,600	72,915	84,840	109,558
Operating income	158	701	(407)	1,453	7,186	8,933	6,031	(2,261)	1,320	7,565	28,998	53,390
Interest/other income	254	349	423	369	355	1,506	165	1,250	2,775	1,644	5,834	9,298
Interest expense	(75)	(61)	(83)	12	(23)	(225)	(44)	0	(80)	(349)	0	(319)
Foreign currency gain (loss)	0	(343)	(857)	215	(466)	(1,452)	161	(135)	0	0	26	0
Other income (expense)	0	(5)	0	(79)	(84)	0	0	0	0	0	0	0
Warrant valuation	0	7	(177)	(893)	125	(938)	0	0	0	0	0	0
Nonoperating income (expense), net	179	(95)	(663)	(392)	(53)	(1,202)	101	1,071	2,775	1,565	5,512	8,979
Earnings before taxes	317	866	(1,070)	1,061	7,133	6,132	(1,190)	4,095	13,076	37,977	10,501	64,282
Provision for taxes	78	0	(3,365)	(2,083)	(7,736)	(7,184)	2,246	(537)	1,512	1,478	4,689	13,900
Net income (adjusted including SBC)	\$239	\$606	\$2,285	\$3,144	\$14,916	\$3,885	\$6,633	\$2,583	\$2,561	\$8,377	\$24,076	\$40,761
EPS (adjusted including SBC)	\$0.03	\$0.07	\$0.16	\$0.36	\$0.92	\$1.63	\$0.99	\$0.01	\$0.05	\$0.18	\$0.44	\$0.73
% growth (yr-yr)	92.5%	N/M	-92.1%	N/M	N/M	553,674	24,676	N/M	-86.7%	-94.2%	159.9%	66.9%
Stock-based compensation	0	4	9	0	132	232	679	667	800	800	2,946	3,400
Net income (adjusted excluding SBC)	\$239	\$610	\$2,304	\$3,144	\$15,143	\$4,565	\$14	\$3,383	\$3,361	\$11,323	\$22,478	\$44,361
EPS (adjusted excluding SBC)	\$0.03	\$0.07	\$0.26	\$0.36	\$0.94	\$1.77	\$0.11	\$0.00	\$0.06	\$0.25	\$0.50	\$0.79
Extraordinary items												
Net income (GAAP)	\$239	(\$1,534)	(\$20,448)	\$3,144	\$14,916	(\$3,963)	\$3,886	(\$102,634)	\$2,583	\$2,561	\$8,377	\$24,078
EPS (GAAP)	\$0.03	(\$0.19)	(\$2.31)	\$0.36	\$0.92	(\$1.13)	\$0.36	(\$3.15)	\$0.05	\$0.05	\$0.44	\$0.73
Weighted average shares out.	7,986	8,196	8,844	8,789	9,595	11,985	8,856	42,168	32,819	54,405	54,605	45,998
EBITDA												
As a percent to revenues (%):												
Gross margin	33.9	29.6	28.2	36.4	38.2	34.2	42.6	33.2	37.3	35.0	37.1	38.3
R&D	15.0	12.6	13.8	16.6	12.4	13.7	14.0	17.6	16.3	15.2	13.3	40.4
SG&A	18.7	14.5	15.7	15.9	13.8	14.8	16.9	20.8	18.8	18.3	15.3	12.4
Operating income	0.2	2.6	N/M	3.9	12.1	5.7	11.8	N/M	2.2	3.9	3.5	9.8
EBT	0.4	2.2	N/M	2.9	12.0	5.0	12.0	N/M	6.9	6.0	12.6	15.0
Net income	0.3	2.2	7.2	8.5	14.9	9.6	7.6	N/M	4.4	3.9	8.1	10.1
Tax rate	24.6	0.0	314.6	(196.3)	(24.3)	(92.9)	36.6	N/M	36.9	36.6	35.9	35.6
Year-over-year growth (%):												
Gross margin	47.9	150.3	(24.2)	315.6	210.6	107.9	167.9	61.6	63.2	(3.2)	50.6	43.4
R&D	75.2	50.2	30.7	98.9	181.7	88.2	107.0	74.5	56.1	54.6	19.4	23.7
SG&A	78.6	53.8	43.3	79.4	105.6	74.1	112.1	78.6	71.9	25.6	63.8	16.4
Operating income	0.2	2.6	N/M	3.9	12.1	5.7	11.8	N/M	2.2	3.9	3.5	9.8
EBT	0.4	2.2	N/M	2.9	12.0	5.0	12.0	N/M	6.9	6.0	12.6	15.0
Net income	0.3	2.2	7.2	8.5	14.9	9.6	7.6	N/M	4.4	3.9	8.1	10.1

Source: Company reports and William Bair & Company, L.L.C. estimates

Table 7
 TomoTherapy Incorporated
 Balance Sheet
 (\$ in thousands)

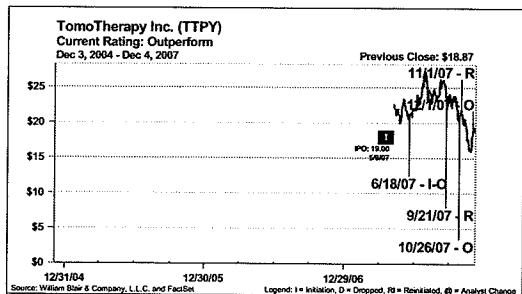
Assets	FY 2005	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	FY 2006	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 (E) Dec-07	FY 2007 (E)	FY 2008 (E)	FY 2009 (E)
Current assets													
Cash and equivalents	\$30,395	\$29,305	\$35,206	\$19,331	\$20,136	\$20,136	\$2,643	\$189,318	\$184,585	\$202,306	\$249,783	\$307,039	
Accounts receivable	14,235	24,442	18,463	14,835	19,050	19,050	39,414	33,112	38,851	34,559	39,313	56,484	
Inventories	28,283	30,700	30,336	37,469	40,026	40,026	51,925	56,115	56,432	53,912	69,584	85,856	
Deferred tax asset	0	0	2,475	2,524	5,982	5,982	3,968	4,196	2,279	2,279	2,279	2,279	
Other	838	909	5,131	2,422	10,14	10,14	1,912	1,603	2,052	1,960	2,535	2,535	
Total current assets	73,731	85,356	91,611	76,581	86,208	86,208	99,862	284,344	284,199	295,015	363,494	454,387	
P/P&E, net	6,656	7,688	10,403	12,951	15,469	15,469	16,542	17,614	19,757	20,596	20,596	28,763	
Test systems, net	1,769	1,557	1,346	3,783	5,349	5,349	4,809	5,601	6,283	5,747	4,777	2,241	
Intangible assets, net	126	161	227	400	472	472	464	467	470	470	470	470	
Deferred tax assets	0	0	1,002	3,017	1,815	1,815	2,037	2,258	3,008	3,008	3,008	3,008	
Other Assets													
Total Assets	\$82,303	\$94,752	\$104,590	\$96,734	\$109,314	\$109,314	\$123,715	\$310,285	\$313,718	\$324,837	\$324,837	\$324,837	\$488,871
Liabilities and Shareholders' Equity													
Current liabilities													
Accounts payable	\$9,241	\$10,585	\$11,181	\$13,960	\$13,960	\$13,960	\$17,911	\$14,044	\$13,187	\$14,377	\$20,295	\$32,196	
Accrued expenses	9,337	9,111	9,164	10,878	11,974	11,974	16,550	19,219	21,524	23,520	30,419	35,598	
Warrant liability	0	2,577	2,754	3,648	3,522	3,522	127	0	0	3,136	3,136	5,933	
Deferred revenue	11,094	28,423	39,030	18,134	20,204	20,204	28,775	25,265	24,254	25,228	43,048	64,141	
Customer deposits	38,187	30,560	25,353	31,983	23,103	23,103	19,619	24,520	24,765	25,228	35,873	45,815	
Other	0	0	0	0	0	0	0	0	0	800	800	4,200	
Total current liabilities	65,960	79,912	86,886	75,824	78,763	78,763	82,982	83,048	83,730	92,289	92,289	138,905	191,483
Long-term debt	1,347	1,732	2,240	2,288	2,005	2,005	2,036	2,628	2,655	2,655	2,655	2,655	
Other long-term obligations	0	0	0	0	0	0	0	0	0	0	0	0	
Preferred stock	166,402	41,320	41,315	41,314	212,663	212,663	351,587	0	0	0	0	0	
Common stock	62	65	65	65	68	68	112	491	632	632	632	632	
Additional paid-in capital	1,035	674	729	744	1,796	1,796	4,121	644,654	644,654	644,654	644,654	644,654	
Treasury stock	0	0	(26,645)	(23,501)	(185,981)	(185,981)	0	0	0	0	0	0	
Retained earnings	(152,503)	(28,941)	(13,118)	(15,464)	(18,622)	(28,546)	(317,183)	(420,536)	(417,953)	(415,392)	(391,315)	(350,554)	
Total Liabilities and Shareholders' Equity	\$82,303	\$94,762	\$104,590	\$96,734	\$109,314	\$109,314	\$123,715	\$310,285	\$313,718	\$324,837	\$324,837	\$324,837	\$488,871

Source: Company reports and William Blair & Company, L.L.C. estimates

Table 8
 TomoTherapy Incorporated
 Cash Flow Statement
 (\$ in thousands)

	FY 2005	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	FY 2006	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 (E) Dec-07	FY 2007 (E)	FY 2008 (E)	FY 2009 (E)
Cash flow from operations:													
Net income	239	(1,534)	2,295	3,144	8,870	12,775	3,886	(655)	2,583	2,561	8,377	24,078	40,761
Depreciation and amortization	1,679	566	606	796	1,084	3,052	1,471	1,469	1,623	1,697	6,260	7,785	9,554
Stock-based compensation	0	50	50	132	177	894	132	232	810	908	800	3,319	3,400
Change in carrying value of convert. pref. stock warrants	0	2,132	177	894	(125)	3,078	58	50	0	0	108	0	3,600
Loss on disposal of property and equipment	0	5	(3,477)	(2,064)	95	(100)	0	0	0	0	0	0	0
Benefit from deferred income taxes	0	(16)	5	(13)	29	(2,256)	(7,797)	1,792	(449)	1,167	0	2,510	0
Deferred rent	0	0	0	0	10	31	0	0	0	0	0	0	0
Gain on extinguishment of debt	0	0	0	0	(2,4)	(2,4)	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	111	569	275	0	955	0	0
Changes in working capital													
Account receivable	(9,199)	(10,207)	5,979	3,628	(4,215)	(4,815)	(20,364)	6,302	(5,739)	(15,509)	(4,292	(17,171)	
Inventories	(12,556)	(2,417)	355	(7,133)	(2,557)	(11,752)	(11,889)	(4,190)	(317)	(2,520)	(13,886)	(5,672)	(16,272)
Other current assets	(544)	(98)	(4,195)	2,746	1,383	(165)	(88)	309	(449)	92	(946)	(575)	(1194)
Accounts payable	2,087	1,899	1,344	596	2,779	6,118	3,951	(3,867)	(857)	1,190	4,17	5,919	1,901
Accrued expenses	3,602	(226)	53	1,714	7,193	8,734	(2,136)	3,140	2,427	1,996	5,427	6,899	5,179
Deferred revenue	6,558	17,329	10,607	(20,896)	2,070	9,110	8,571	(3,510)	66	974	6,101	17,820	21,098
Customer deposits	26,590	(7,627)	(5,207)	6,630	(8,880)	(15,384)	(4,484)	4,901	(832)	463	1,048	10,645	9,942
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from operations	\$18,441	(\$122)	\$8,575	(\$9,917)	\$5,367	\$3,903	(\$17,427)	\$4,409	(\$704)	\$614	\$19,721	\$57,478	\$69,255
Cash flow from investing:													
Purchase of property and equipment	(\$2,205)	(\$1,378)	(\$3,093)	(\$3,110)	(\$3,393)	(\$10,974)	(\$1,929)	(\$1,918)	(\$4,526)	(\$1,900)	(\$10,273)	(\$8,800)	
Cost for test systems	(1,832)	(1)	(1)	(2,673)	(1,998)	(4,973)	(66)	(1,405)	(100)	(100)	(1,671)	(1,200)	(1,200)
Payments for intangible assets	(1,133)	(39)	(72)	(182)	(85)	(578)	(5)	(18)	23	0	0	0	0
Cash from investing	(\$4,170)	(\$1,418)	(\$3,166)	(\$5,965)	(\$5,476)	(\$16,125)	(\$2,000)	(\$3,341)	(\$4,603)	(\$2,000)	(\$11,944)	(\$10,000)	(\$12,000)
Cash flow from financing:													
Notes payable (payments), net	(\$70)	\$400	\$493	(\$8)	(\$9)	\$675	(\$8)	(\$40)	\$23	\$0	(\$25)	\$0	\$0
Proceeds from the issuance of common stock	13,911	15	(5)	(1)	0	0	0	185,404	0	0	185,404	0	0
Proceeds from exercise of warrants	182	0	0	0	0	0	523	5	0	0	528	0	0
Proceeds from exercise of stock options	150	36	5	16	923	979	1,455	304	0	0	1,305	0	0
Cash from financing	\$14,174	\$450	\$493	\$7	\$913	\$1,863	\$1,970	\$185,673	(\$454)	\$0	\$187,212	\$0	\$0
Effect of exchange rate changes on cash	0	0	0	0	0	0	(36)	(66)	(313)	0	(415)	0	0
Increase in cash and equivalents	\$28,445	(\$1,090)	\$5,901	(\$15,875)	\$805	(\$10,259)	(\$17,493)	\$186,675	(\$4,733)	\$17,721	\$182,170	\$47,478	\$57,255
Cash and equivalents, beginning of period	\$1,956	\$30,395	\$29,305	\$35,206	\$19,331	\$30,395	\$20,136	\$2,643	\$189,318	\$184,585	\$20,136	\$202,306	\$249,783
Cash and equivalents, end of period	\$30,395	\$29,305	\$35,206	\$19,331	\$20,136	\$20,136	\$2,643	\$189,318	\$184,585	\$202,306	\$202,306	\$249,783	\$307,039

Source: Company reports and William Blair & Company, L.L.C. estimates



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CIBC World Markets

Equity Research Company Update

October 31, 2007

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target	None
TTPY-OTC (10/30/07)	\$21.44

Key Indices: None

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$19.15-\$27.58
Shares Outstanding	53.0M
Float	38.9M Shrs
Avg. Daily Trading Vol.	230,000
Market Capitalization	\$1,136.1M
Dividend/Div Yield	Nil / Nil
Fiscal Year Ends	December
Book Value	NM
2007 ROE (E)	NM
LT Debt	\$2.6M
Preferred	Nil
Common Equity	NM
Convertible Available	No

Earnings per Share	Prev	Current
2006		\$0.36A
2007		\$0.19E
2008		\$0.41E

P/E		59.6x
2006		NM
2007		52.3x

Medical Devices

TomoTherapy, Inc.

3Q Was a Non-Event; Focus is on Competitive Products

- 3Q was a non-event and in line with TTPY's pre-announcement. Tomo played defensive at this week's ASTRO trade show as Varian/Elekta began to market new competitive (VMAT) products. We fear this may pressure order growth, and the stock looks fairly valued in low \$20s for that reason.
- New VMAT products from VAR and Elekta will at the very least be seen as an improvement in throughput and may likely improve dose placement over prior IMRT. Intuitively, it is difficult for us to conceive how 70% of the market now offering arc therapy will not negatively impact Tomo.
- Sales of \$59.2M (+59%) vs. pre-announced \$58-\$60M. New order growth of \$73.2M was very strong--we estimate 27 unit orders, and backlog was \$228M. All in all, Tomo's 3Q performance was strong despite a seasonally weak quarter.
- In terms of guidance, the lower end of the range was brought up slightly, and Street estimates for 4Q are now at the high end of the range. We expect the stock to remain pressured until the actual impact of new competitive products is better known. Reiterate SP rating.

Stock Price Performance



Source: Reuters

All figures in US dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Company Description

TomoTherapy designs and develops advanced and versatile radiation therapy systems, including its Hi-Art System, designed to treat a wide variety of cancers.

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WW Orders Strong, But Competitors Circling

New Orders came in at \$73.2 million, up 82% y/y, in line with pre-announced results that implied new order bookings of ~\$73 million, or about 27 units worldwide. Total backlog for the quarter came in at \$228 million, up 56% y/y, which was slightly above pre-announced backlog of \$225 million. Tomo is growing considerably faster than the overall radiation therapy market, which we peg to be growing at about 14-16%. Considering that 3Q usually sees some seasonality, this was a very good performance.

On the positive side, a growing percent of Hi-Art unit sales are going to Tomo-only facilities (we are told), and the introduction of TTPY's new high-performance couch and the Integra Radionics InterFix stabilization device enables the sales force to market more high-precision in addition to Tomo's helical IGRT capabilities.

We think that TTPY will continue to show strong growth, as IGRT penetration continues to increase and this is a fast growing segment of the market, but we maintain concerns related to competition and operating margins. In short, we have growing concerns that these new technologies will impact order growth rates in the coming quarters.

2007 Guidance Is Relatively Unchanged

For full year 2007, management slightly increased the bottom end of its guidance to revenues of \$214-\$220 million (from \$210-\$220 million), and EPS in the range of \$0.17 to \$0.20 (from \$0.15 to \$0.20). Gross margin for the full year is expected to come in at or above 36%, representing at least a 200 bps improvement over 2006.

Estimates Remain Unchanged

Based on 3Q results and the current competitive landscape, we are maintaining our FY07 and FY08 sales and EPS forecasts. Our FY07 sales and EPS estimates are slightly adjusted for the quarter only, and we reiterate our FY08 sales and EPS estimates of \$298.2 million and \$0.41, respectively.

3Q Results Summary

Third-quarter results exceeded estimates, with revenues coming in at \$59.2 million (+59 % y/y), at the high-end of pre-announced sales of \$58-\$60 million. As a reminder, this had exceeded both our and Street estimates.

Gross margin of 37.3% was significantly improved from last quarter's 33.2%, which should set up nicely for the company to reach its full-year gross margin guidance of ~36% (+200 bps y/y). The gross margin increase was due to the leveraging of fixed service and support infrastructure, manufacturing efficiencies and the completion of ongoing expense improvement projects initiatives. TTPY expects to continue seeing margin improvement as it rolls out a number of product component reliability enhancements, such as the new high-performance couch, which bring down manufacturing and service costs.

On the operating margin, SG&A expenses as a percentage of revenue were 18.8%, up 70 bps y/y. Tomo continues to expand its direct sales force, with a total of 18 sales reps as of the end of 3Q, up from 13 at the beginning of 2007, and this number is heading into the mid-20s next year. R&D spending as a

percentage of revenue was 16.3%, up 170 bps y/y, including \$1 million in expenses related to the LLL development agreement.

The EPS beat was due to strong sales, but we continue to show concern over margins and leverage on the P&L. Tomo posted \$0.05 EPS, in line with our \$0.05 estimate and ahead of the Street's forecast of \$0.04.

TTPY ended the third quarter with \$184.6 million in cash and no debt.

Investment Thesis

TomoTherapy (Tomo) has a worldwide share of 8% in the \$3 billion-plus annual market for radiation therapy systems to treat cancer. The company's unique system offering, called Hi-Art, carries some distinct advantages over competitive modalities, such as a unique delivery of radiation that can better conform to some complex tumors, an improved CT imaging capability over competitors and sole ability to radiate a broad treatment field. However, no one system in this market today has yet proven to be broadly superior (in terms of technology), and we expect Tomo to face numerous challenges as well. These include: the Hi-Art system's lack of versatility and throughput compared to competitors, a disadvantageous pricing structure, and a need to improve service/reliability. At the end of the day, we feel there is a place for Tomo's system in this market, and expect share gains to continue in the coming years as the company grows. But competitive challenges will undoubtedly increase, and it is our belief that Tomo will be forced to innovate and diversify for the stock to work higher. On our estimates, TTPY trades at a 2008 enterprise value/sales multiple of 3.7x, a 20% premium to its peer group. While we think that some premium is deserved due to its current growth profile, we are hesitant to try and push the envelope on valuation for a one-product company in a competitive capital-equipment space with very little in the way of pipeline visibility. Therefore, we see fair value for this equity heading into 2H08 at around the low \$20s.

Key Risks

1) TomoTherapy depends on the success of its Hi-Art System, and failure to achieve widespread adoption could negatively impact financial results. 2) If sufficient coverage and reimbursement is not provided by third-party payors, coverage revenue would be adversely impacted. 3) The safety and effectiveness of the Hi-Art System for certain uses is not yet supported by long-term clinical data, which could slow the adoption of the system by physicians. 4) TomoTherapy relies on a single source supplier for critical components of the Hi-Art System, which could harm the company's ability to meet demand for products in a timely and cost-effective manner. 5) The Hi-Art System is a major capital equipment item and has long and variable sales and installation cycles, which may result in inconsistent quarterly results. 6) There are many large players in the radiation treatment market, such as Varian, Elekta and Siemens, that have greater resource than TomoTherapy's.

In addition, product recalls, patent litigation, product injunctions, loss of regulatory approvals and disappointing financial results could negatively impact the company's stock price and financial operations.

Exhibit 1. Income Statement

Fiscal Year End - Dec (\$ in millions, except per share data)		2006			2007E			2007E			2008E			2009E		
Product Sales	Services/Other	Mar	Jun	Sep	DecE	MarE	JunE	SepE	DecE	MarE	JunE	SepE	DecE	MarE	JunE	SepE
Sales	\$156.1	\$51.2	\$43.7	\$59.2	\$64.6	\$218.7	\$71.9	\$80.7	\$85.9	\$89.9	\$328.4	\$373.4				
COGS	102.7	29.4	29.2	37.2	40.9	136.6	45.1	50.1	52.9	54.9	203.0	224.1				
Gross Profit	\$53.4	\$21.8	\$14.5	\$22.1	\$23.7	\$82.1	\$26.8	\$30.6	\$33.0	\$35.0	\$125.4	\$149.4				
R&D	21.4	7.2	7.7	9.6	9.4	33.9	10.4	11.6	12.3	12.9	47.2	45.9				
SG&A	23.1	8.6	9.1	11.1	11.6	40.5	12.1	13.5	14.3	14.8	54.6	57.9				
Operating Expenses	44.5	15.8	16.8	20.8	21.0	74.4	22.5	25.1	26.5	27.7	101.8	103.8				
Operating Income	\$8.9	\$6.0	(\$2.3)	\$1.3	\$2.6	\$7.7	\$4.3	\$5.5	\$6.4	\$7.3	\$23.5	\$45.6				
Interest/currency (exp.), net	(0.2)	(0.1)	1.2	2.8	1.4	5.2	1.4	1.5	1.5	1.5	5.9	6.6				
Other	(1.0)	0.2	(0.1)	(0.1)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0				
Total Other Income (Exp.), net	(\$1.2)	0.1	1.1	2.7	1.4	5.3	1.4	1.5	1.5	1.5	5.9	6.6				
Income before Tax	\$7.7	\$6.1	(\$1.2)	\$4.0	\$5.4	\$14.4	\$7.1	\$8.5	\$9.4	\$10.3	\$35.3	\$58.8				
Income Tax	(7.2)	2.2	(0.5)	1.5	2.0	5.2	2.6	3.1	3.5	3.8	13.1	21.8				
Effective Tax Rate	36.6%	nmf	37.7%	37.0%	37.1%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%			
Change in Accounting Principle	(2.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Options Expense (tax effected)	4.3	0.7	0.7	0.7	2.5	4.5	2.0	2.5	2.5	2.5	9.5	10.0				
Net Income from Operations¹	\$12.8	\$3.9	(\$0.7)	\$2.5	\$3.4	\$24.5	\$4.5	\$5.3	\$5.9	\$6.5	\$22.3	\$37.0				
Net Income - x-Options	\$17.1	\$4.6	\$0.0	\$3.2	\$5.9	\$9.2	\$6.5	\$7.8	\$8.4	\$9.0	\$31.8	\$47.0				
Shares Outstanding (Basic & Diluted)	35.5	42.2	43.9	54.4	53.2	48.4	53.4	53.6	53.8	54.0	53.7	54.4				
EPS - from Ops¹	\$0.36	\$0.09	(\$0.01)	\$0.05	\$0.06	\$0.19	\$0.08	\$0.10	\$0.11	\$0.12	\$0.17	\$0.41	\$0.68			
EPS - x-Options	\$0.48	\$0.11	\$0.00	\$0.06	\$0.11	\$0.28	\$0.12	\$0.15	\$0.16	\$0.17	\$0.59	\$0.86				
Margin Analysis																
COGS	65.8%	57.4%	66.8%	62.7%	63.3%	62.5%	62.7%	62.1%	61.6%	61.1%	61.8%	60.0%				
Gross Margin	34.2%	42.6%	33.2%	37.3%	36.7%	37.5%	37.3%	37.9%	38.4%	38.9%	38.2%	40.0%				
R&D	13.7%	14.0%	17.6%	16.3%	14.6%	15.5%	14.5%	14.4%	14.3%	14.3%	14.4%	12.3%				
SG&A	14.8%	16.9%	20.8%	18.8%	18.0%	18.5%	16.8%	16.7%	16.6%	16.5%	16.6%	15.5%				
Operating Margin	5.7%	11.8%	-5.2%	2.2%	4.1%	3.5%	6.0%	6.8%	7.5%	8.1%	7.2%	12.2%				
Pretax Margin	5.0%	12.0%	-2.7%	6.8%	8.4%	6.6%	9.9%	10.5%	11.0%	11.4%	10.8%	15.7%				
Net Margin	11.0%	8.9%	0.0%	5.3%	9.2%	4.2%	9.0%	9.7%	9.8%	10.0%	9.7%	12.6%				
Percentage Change (Y/Y)																
Revenue (Y/Y)	106.1%	86.3%	37.2%	59.3%	8.3%	40.1%	84.6%	45.1%	39.2%	50.2%	13.7%					
Operating Income (Y/Y)	64.9%	761.6%	NM	-9.2%	-63.2%	-13.4%	NM	388.2%	175.0%	204.0%	93.8%					
Net Income (Y/Y)	526.2%	NM	-128.5%	-20.7%	-61.3%	91.9%	NM	138.6%	88.7%	-9.2%	66.4%					
EPS (Y/Y)	1108.9%	NM	-123.0%	-48.2%	-74.2%	-8.9%	NM	141.2%	85.9%	120.8%	64.2%					

Notes:
 1) P&L line items include the effects of expensing stock options. For a look at the P&L x-option expensing, we also show a net income and EPS from operations lines.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	--	--	--	--	\$0.36A
2007 Current	\$0.09A	(\$0.01A)	\$0.05E	\$0.06E	\$0.19E
2008 Current	\$0.08E	\$0.10E	\$0.11E	\$0.12E	\$0.41E

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CIBC World Markets Price Chart

**No price chart is available because CIBC World Markets
has covered this company,
TomoTherapy Incorporated (TTPY), for less than one year.**

No rating history data found for TomoTherapy Incorporated

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Abbreviation	Rating	Description
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SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
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R	Restricted	CIBC World Markets is restricted*** from rating the stock.
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O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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***Restricted due to a potential conflict of interest.

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Sector Outperformer (Buy)	376	40.6%	Sector Outperformer (Buy)	180	47.9%
Sector Performer (Hold/Neutral)	458	49.5%	Sector Performer (Hold/Neutral)	222	48.5%
Sector Underperformer (Sell)	61	6.6%	Sector Underperformer (Sell)	30	49.2%
Restricted	19	2.1%	Restricted	18	94.7%

Ratings Distribution: Medical Devices Coverage Universe

(as of 30 Oct 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	33.3%	Sector Outperformer (Buy)	2	40.0%
Sector Performer (Hold/Neutral)	8	53.3%	Sector Performer (Hold/Neutral)	5	62.5%
Sector Underperformer (Sell)	1	6.7%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

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